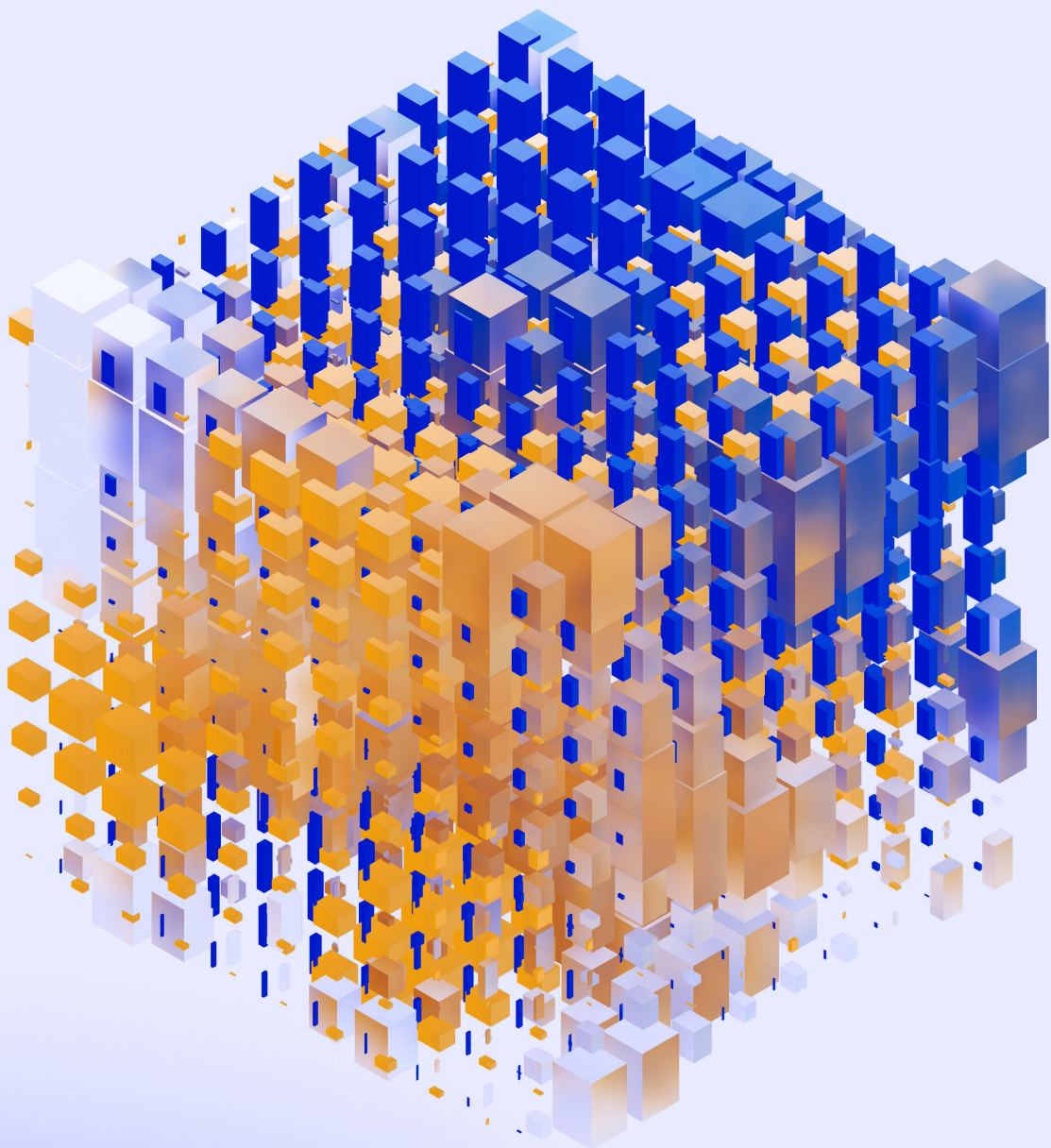




ANNUAL SURVEY OF **THE IRANIAN ECONOMY**

1403 (2024/25)



بانک خاورمیانه
Middle East Bank



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The data and analyses presented in this Report are for information purposes only. All data and information used are the latest available for the year 1403 (2024/25) at the date of publication (June 2025) and have been taken from the referenced sources. While every effort has been made to keep them up-to-date and correct, no representations or warranties of any kind, express or implied, are made about their completeness, accuracy, reliability or suitability for any purpose. Your use of this Report does not entail any responsibility or obligation by Middle East Bank or any entity or person associated with it.



Annual Survey of the Iranian Economy 1403 (2024/25)

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Note:

■ In this Report the growth rate of a variable means the percentage change of that variable during the period under review, or at the point under discussion, compared to the similar period or point the preceding year. As such, "the growth rate of oil revenues in the first quarter of 1403" indicates the percentage change in oil revenues between the first quarter of 1402 and the first quarter of 1403.

■ Iran follows the Persian Calendar, a solar calendar in which years start on the first day of spring and end on the last day of winter. The four quarters of the year correspond exactly to the four seasons. This report covers the year 1403 that started on March 20, 2024, and ends on March 20, 2025. The first quarter of 1403, Spring of 1403, roughly corresponds to the Second quarter of 2024 in the Gregorian Calendar.

■ The following table provides an easy reference while reading this Report.

Spring 1403 (1403Q1) = 03/20/2024 - 06/20/2024

Summer 1403 (1403Q2) = 06/21/2024 - 09/21/2024

Fall 1403 (1403Q3) = 09/22/2024 - 12/20/2024

Winter 1403 (1403Q4) = 12/21/2024 - 03/20/2025

EXECUTIVE SUMMARY

The positive economic growth rate of Iran that had started from 1399 onwards -mainly thanks to the Oil sector- extended to the first 9 months of 1403. However, in the aftermath of the inauguration of the new US Administration, Iran's GDP growth rate slowed down from the second half of 1403 and even some international institutions such as the World Bank forecasted GDP contraction for the country in 1404.

The preliminary estimates of the Central Bank of Iran (CBI) suggest 3.1 percent expansion in Iran's GDP in the first 9 months of 1403¹ at constant 1400 prices. In the first 9 months of 1403, the Oil sector contributed to Iran's GDP growth rate by only 0.5 percentage point, the lowest contribution of that sector from 1400 onwards. Moreover, the share of Oil sector in GDP growth rate followed a downward path in various quarters of 1403 and registered 0.8 percentage point in spring and 0.6 percent in summer. However, in fall 1403 that sector had no contribution to the Iranian economy. As for the demand side of the economy, the Private Consumption Expenditures grew by 3.3 percent in the first 9 months of 1403 at constant 1400 prices. From a quarterly perspective, the Private Consumption Expenditures, respectively, grew by 1.5 percent, 2.3 percent and 6.2 percent in the first three quarters of 1403. On the contrary, the Government Consumption Expenditures that had contracted in 1402 at constant 1400 prices, expanded 0.2 percentage point less than the Private Consumption Expenditures in the first 9 months of 1403. The Gross Fixed Capital Formation expanded by 3.4 percent in the first 9 months of 1403 at constant 1400 prices due to the expansion of its all three components of Machinery, Construction and Other.

On the basis of the Statistical Center of Iran (SCI) report, the GDP growth rate in 1403 as a whole registered 3.0 percent at constant 1400 prices, 1.6 percentage points below that of 1402. From a quarterly viewpoint, in the year 1403, Iran's GDP grew by 4.6 percent in spring, by 3.1 percent in summer, by 1.6 percent in fall, and by 2.9 percent in winter. Moreover, the growth rate of the Extraction of Oil and Natural Gas that in a downward path registered 10.3 percent, 6.2 percent, and 2.0 percent, respectively, in spring, summer, and fall 1403, reversed course and in winter of the same year rose to 6.2 percent, causing the annual expansion of that subsector to reach 6.2 percent in 1403. As for the Non-oil GDP growth rate, the corresponding figure in the SCI report registered 2.1 percent in 1403.

On the basis of the CBI, in the first 9 months of 1403, the Iranian Oil sector grew by 6.0 percent only, far below its 20.3 percent expansion in the same period of 1402. Given lack of official data on Iran's oil exports, the Tanker Trackers website reported Iran's oil exports in 1403 around 1.6 million barrels per day (mbpd), which is above the levels in the critical years of the sanction era. Since the second half of 1399 and coinciding with the beginning of Joe Biden's presidency, the downward trend in Iran's oil exports reversed course and it gradually increased, still below its levels prior to the US withdrawal from the JCPOA in 1397. In 1403, the oil exports of the country experienced 1.6 percent annual growth rate which is highly vulnerable to political, military and diplomatic risks that might change its path in 1404. The country's total crude oil production of 3.3 mbpd seems to be the maximum production capacity, and given the technical limitations and the aging of equipment and oil wells, further increases in production are not achievable in the short-run. Even though the Iranian Oil sector slightly improved in 1403, better political relation and new investments are highly required if this improvement is to continue.

In 1403, the unemployment rate fell by 0.5 percentage point compared to its preceding year, registering 7.6 percent. In the same period, the participation rate fell by 0.3 percentage point to 41.0 percent. The employment ratio (the ratio of employed to working age population) has remained unchanged, signaling that job opportunities have moved in proportion with the population growth, the decline in unemployment rate is owed to the fall in participation rate.

In the Budget Law of 1403, IRR28,371 trillion was legislated for the Government General Budget (including General Sources as well as Dedicated Revenues), 25.3 percent above that of the Budget Law of 1402. Moreover, IRR37,416 trillion was legislated for Budget of State-owned Companies, banks, and Profit Institutions affiliated to the Government in 1403 Law, indicating 29.7 percent rise compared to the 1402 Law.

1. The latest CBI data on the Iranian National Accounts while preparing this Report covered till the first 9 months of 1403.

Hence, the Total Government Budget in 1403 Law reached IRR64,587 trillion, up 29.3 percent from that of 1402 Law. In 1403, the actual Government General Sources and Uses, respectively, registered IRR30,800.0 trillion and IRR31,200.0 trillion with realization ratios of 120.2 percent and 121.7 percent. This 1.5 percentage points gap between the 2 realization rates translates to IRR400.0 trillion Overall Budget Deficit that has been financed through the revolving funds with the CBI. The General Revenues of Government (tax revenues and other) in 1403 reached IRR15,839 trillion, accounting for 99.1 percent of the legislated figure in the Law. Given the actual Government General Expenditures of IRR23,356.9 trillion in the same period (124.3 percent of the legislated) the Operating Balance Deficit to registered IRR7,518 trillion. The disposal of Non-financial Assets realized 55.9 percent of its approved figure in 1403 Law to reach 3,601.1 trillion in 1403. In 1403 as a whole, 59.6 percent of the legislated Acquisition of Non-financial Assets (development expenditures) was materialized at IRR2,386 trillion. Subsequently, the Net Disposal of Non-financial Assets in 1403 is supposed to have a surplus of IRR1,215.3 trillion. The Net Disposal of Financial Assets in 1403 experiences 355.9 percent realization ratio to reach IRR11,360.1 trillion. In the year 1403, Issuance of Government Debt Securities as well as the NDF, respectively, formed 42.2 percent and 37.6 percent of Disposal of Financial Assets in total. Moreover, the Acquisition of Financial Assets in 1403 reached IRR2,812 trillion, accounting for 99.3 percent of the legislated figure in 1403 Law, of which, 79.0 percent was spent for principal repayment of the matured Government Debt Securities. Accordingly, IRR8,547.8 trillion is estimated for the Net Disposal of Financial Assets in 1403, accounting for 27.8 percent of the actual General Sources of Budget in 1403.

The CBI in cooperation with the Ministry of Economic Affairs and Finance started to hold the weekly auctions of Government Debt Securities in Money Market and Capital Market from mid-spring and till the end of the 7th month of the year, all the Government Debt Securities (approved for the whole year) were issued. Hence, the Government request for Issuance of another IRR2,700 trillion Debt Securities was consented. The CBI held 38 rounds of auctions in 1403 with IRR4,746.0 trillion Murabaha Securities issued and the accumulated supply of IRR10,321.4 trillion. Out of the supplied Securities, IRR2,139.1 trillion was demanded by banks and non-bank credit institutions and IRR2,057.1 of that demand was approved by the Ministry of Economic Affairs and Finance. During 1403, IRR2,442.6 trillion of auctioned Government Debt Securities were sold in the Capital

Market. Accordingly, in 1403 the traded Government Debt Securities through auctions reached IRR4,499.7 trillion to stand 190.1 percent above the IRR1,551.1 trillion in 1402. Note that IRR246.3 trillion (5.2 percent) of the total figure for Issuance of Debt Securities is considered price discount as interest payment. Given the IRR246.3 trillion price discount, in fact the Government has raised IRR4,499.7 trillion from the IRR4,746.0 trillion Securities issued. On the basis of the Ministry of Economic Affairs and Finance, IRR3,191.0 trillion of Government Debt Securities has been purchased by banks and non-bank credit institutions in 1403 that is totally distinct from the reported figure of the CBI. A comparison between the reported figures of the aforementioned authorities reveals that the banks and non-bank credit institutions have purchased IRR1,133.9 trillion in the Capital Market, not directly through the auctions in the Money Market. Hence, the share of banks and non-bank credit institutions in purchase of Government Debt Securities registered 70.9 percent in 1403.

During the first 9 months of 1403, the Balance of Payments (BoP) declined compared to that of the same period of 1402, despite the considerable rise in the Current Account. The surplus of Goods Account thanks to the rise in oil and non-oil exports with the imports remaining stable, caused the Current Account to reach USD16.2 billion in the first 9 months of 1403. The USD14.0 billion decline in the Capital Account in the first 9 months of 1403 also could not prevent the fall in BoP from falling due to the severe fall in the errors and omissions in the period under discussion. Although the smaller figure for Errors and Omissions translates to more accuracy of BoP calculations, this smaller figure has caused the BoP to register USD712 billion in the first 9 months of 1403, down 41.9 percent from that of the same period of 1402.

The customs trade deficit fell to USD14.5 billion in 1403 from USD16.8 billion in 1402, due to faster growth of exports than imports in 1403. In the same year, customs goods exports of Iran expanded by 10.0 percent in weight and by 15.6 percent in value and the customs goods imports of the country contracted by 0.8 percent in weight, while in terms of value expanded by 8.2 percent. Natural Gas, Liquefied Propane, and Liquefied Butane were the top 3 exports items of Iran in 1403, while Crude Gold, Cattle Feed Corn as well as Smart Phones were the top 3 imported items of the country in the same period.

The Iranian free market for foreign exchanges was highly volatile during 1403, mainly due to the political developments

in various scales of domestic, regional and international. The USD price in the Iranian free market opened the first trading day of 1403 at IRR619 thousand and by 58.1 percent rise, closed that year at IRR978 thousand. The USD/IRR bill and remittance exchange rates in Iran Center for Exchange of Currency and Gold (secondary market) that were changing slightly in the first 8 months of 1403, severely increased from the beginning of fall 1403. Meanwhile, from the early fall 1403, another market was launched in the secondary market known as the Commercial Foreign Exchange Market, in which limited foreign exchange transactions took place at higher prices than the previous official ones. However, it was planned that from the beginning of the 2nd month of winter 1403 all foreign exchange transactions (except for imports of essential goods) materialize in the newly established market, translating to putting an end to the previous official market exchange rates.

At the end of 1403, the Liquidity rose by 29.1 percent to IRR101,742.3 trillion. The monthly growth rate of Liquidity averaged 2.2 percent in 1403 to stand above the average rate of 1.8 percent in 1402. From a quarterly view point, Liquidity grew by 2.0 percent a month on average in spring, by 2.8 percent in summer and by 1.9 percent in fall and winter 1403. Hence, the rise in average of monthly growth rate of Liquidity could be attributed to the higher expansion of this monetary aggregate in summer 1403 and the fall in legal reserves of the banks with the CBI aiming for allocation of mandatory loans. An examination of Liquidity by its components reveals that Money (notes and coins as well as sight deposits), interest-free deposits and short-term deposits formed 55.9 percent of the Liquidity at the end of the 11th month of 1403. At the same point, the three-year deposits constituted 21.8 percent of the Liquidity, below the 23.7 percent share of sight deposit. All in all, during 1403, investment in long-term deposits has not been that appealing for investors.

At the end of the 11th month of 1403, the Monetary Base reached IRR12,729 trillion, indicating 16.6 percent rise from the end of 1402 and 22.0 percent from the same point in 1402. Among the components of Monetary Base, the CBI Net Foreign Assets enjoyed the highest expansion of 51.9 percent compared to the end of 1402. Contrary to the first 11 months of 1402 that the CBI Foreign Assets were converted to IRR using the USD/IRR exchange rate of 42 thousand, from the last month of 1402 onwards, probably the Weighted USD/IRR exchange rate has been used in that regard. Hence, converting CBI Net Foreign Assets at the end of the 11th months of 1403 to USD by the latter exchange rate, that

component of the Monetary Base at that point has not only expanded from the end of 1402, but has also contracted between those two points of time. Given these explanations, in fact the CBI claims on banks with 25.4 percent growth rate and 17.9 percentage points share has been the main driver of the M0 growth rate at the end of the 11th month of 1403 compared to the end of 1402, followed by Net CBI Claims on the Public Sector with 8.8 percentage points contribution to M0 growth rate in the same period.

The downward path of the annual CPI inflation that had started from the early 1402 maintained till the 11th month of 1403. On the basis of the SCI, this rate that had registered 38.8 percent in the 1st month of 1403, reached its low of 32.0 percent in the 11th month of that year and eventually closed the year 1403 at 32.5 percent. Even though the CPI inflation data is not officially issued by the CBI, the annual CPI inflation rate was calculated 35.8 percent for the last month of 1403, above the corresponding figure of the SCI report at 32.5 percent. Note that despite the difference between these 2 rates, they have followed similar trends. An examination of monthly CPI inflation rates by various cost deciles reveals that the bottom cost deciles have incurred more inflation pressure than the other deciles in 7 months of 1403 - notably in the 11th month of that year- in providing their basic needs. The CBI data on PPI suggests that the annual PPI inflation rate that had started to decline from winter 1402, fell below 30 percent at end of summer 1403 and registered its low of 26.5 percent in the 10th month of that year and finally closed 1403 at 27.6 percent. The SCI also reported 31.7 percent for the annual PPI inflation -ending the last day of winter 1403- following a downward path. Even though the PPI inflation rate reported by the SCI is above that of the CBI, they have follows similar trends.

In 1403, the TSE and OTC Overall Indices, respectively, expanded by 23.5 percent and 7.1 percent. The TSE market capitalization registered IRR89,562 trillion at the end of 1403, up 14.3 percent from that of the end of 1402, of which, 96.3 percent was attributed to the Stock market. In 1403, the total value of transactions in TSE grew by 14.8 percent, below the annual CPI inflation rate of that year. The value of transactions in ETFs, Debt Securities, and Derivatives, respectively, grew by 81.6 percent, 16.7 percent and 102.4 percent, while in Stocks, the value of transactions declined by 25.1 percent in the same year. During 1403, IRR11,569 trillion was financed via TSE and OTC in total, indicating 47.8 percent rise compared to 1402. The Iranian capital market provided 16.2 percent of the funds raised by businesses given the IRR59,659 trillion

financing via the money market. Note that IRR6,039 trillion of the funds raised from the capital market was attributed to public finance through sales of Government Debt Securities, hence by taking this figure apart, the 16.2 percent share of the capital market in financing businesses declines to 8.5 percent.

The economic freedom of various economies is assessed by some international organizations and the Fraser Institute as well as the Heritage Foundation are as such. The Fraser Institute issues an index which is presented in its Economic Freedom of the World (EFW) report. The index is derived from five areas including "Size of Government", "Legal Structure and Property rights", "Sound Money", "Freedom to Trade Internationally" and "Regulation Policies in Credit Market, Labor Market, and Business". The most recent report of the Fraser institute was published in 2024, assessing 165 countries worldwide in 2022. According to the survey, in 2022, ascending by 2 places from 2021, Iran ranked as 158th with the total score of 4.63 (out of 10). Despite this promotion, Iran is still placed among the worst 10 countries regarding

economic freedom, followed by Argentina, Myanmar, Algeria, Syria, Sudan, and Zimbabwe. The report of 2025 of Heritage Foundation surveys 184 countries worldwide from 1st of July 2023 to 30th of June 2024. Among the 176 countries under survey in 2025 report, with 1.3 improvement, Iran scored 42.5 (out of 100), but stood at the same place of 169th just like in its 2 preceding years, followed by Burundi, Eritrea, Sudan, Zimbabwe, Venezuela, Cuba, and North Korea. Moreover, among the 14 countries of MENA, Iran occupied the worst place. In addition, Iran Chamber of Commerce, Industries, Mines, and Agriculture (ICCIMA), also goes over the business environment in Iran. The ICCIMA report of winter 1403 suggests that the national indicator of business environment in Iran has reached 6.01 in winter 1403, below the 6.04 in winter 1402, but above the 5.96 in fall 1403. In other words, in the last quarter of 1403, the business environment has improved compared to winter 1402 but has worsened compared to fall 1403. The national indicator business environment ranges from 0 to 10, with 10 pertaining to the worst state.

1. REAL SECTOR

The Iranian economy faced various headwinds including budget deficit, highly-volatile foreign exchange market, imbalance banks, vague regulations, unnecessary Government intervention, energy crisis, more pressures due to sanctions as well as various uncertainties in the year 1403. Despite such circumstances, on the basis of the latest CBI data on the Iranian national accounts while preparing this Report, the positive economic growth rate of Iran that had started from 1399 onwards - mainly thanks to the Oil sector - extended to the first 9 months of 1403. However, in the aftermath of the inauguration of the new US Administration, Iran's GDP growth rate slowed down from the second half of 1403 and even some international institutions such as the World Bank forecasted GDP contraction for the country in 1404.

The preliminary estimates of the CBI suggest that Iran's GDP registered IRR154,167 trillion in the first 9 months of 1403 at current prices, indicating 3.1 percent expansion at 1400 constant prices. Should the Oil sector be excluded, this GDP growth rate declines to 2.9 percent in the same period. In the first 9 months of 1403, the Oil sector contributed to Iran's GDP growth rate by only 0.5 percentage point, the lowest contribution of that sector from 1400 onwards. Moreover, the share of Oil sector in GDP growth rate followed a downward path in various

quarters of 1403 and registered 0.8 percentage point in spring (Q1), 0.6 percentage point in summer (Q2) and almost zero in fall (Q3). Accordingly, decreasing GDP growth rate in winter 1403 and its succeeding quarters due to weaker role of the Oil sector in the Iranian economy seems plausible, mainly due to the new US Administration approach towards Iran. Table 1 presents the details of GDP growth rate in recent years by various sectors of the Iranian economy.

Table 1. GDP Growth Rate at Constant 1400 Prices by Various Sectors of the Iranian Economy (percent)

	1399	1400	1401	1402	1403				Share in Growth in the First 9 Months of 1403	Share in Total in the First 9 Months of 1403 (at current prices)
					Q1	Q2	Q3	First 9 Months		
Agriculture	2.6	-4.3	3.7	0.8	3.2	3.8	4.1	3.7	0.5	14.7
Oil and Gas	11.3	13.9	9.6	18.8	9.9	7.8	0.1	6.0	0.5	8.4
Industries and Mining	12.1	2.7	8.9	5.1	2.8	1.0	3.4	2.4	0.8	27.5
Services	0.5	5.7	1.2	4.0	5.1	2.5	4.3	3.0	1.3	49.4
Non-oil GDP (at basic prices)	4.7	3.4	4.2	4.0	2.5	2.3	3.9	2.9	-	91.6
GDP (at basic prices)	5.1	4.0	4.6	5.0	3.1	2.7	3.6	3.1	3.1	100.0

Source: Central Bank of Iran

As for the demand side of the economy, the Private Consumption Expenditures grew by 3.3 percent in the first 9 months of 1403 at constant 1400 prices. The continuous contraction of the Private Consumption Expenditures from the second half of 1396 till the end of 1399 - roughly corresponding to the first Trump's Administration - reversed course and from 1400 onwards - roughly corresponding to the Biden's Administration - started to rise. From a quarterly perspective, the Private Consumption Expenditures at constant prices, respectively, grew by 1.5 percent, 2.3 percent and 6.2 percent in the first three quarters of 1403. On the

contrary, the Government Consumption Expenditures that had contracted in 1402 at constant 1400 prices, expanded 0.2 percentage point less than the Private Consumption Expenditures in the first 9 months of 1403.

After a continuous fall during 1390s, from 1399 onwards, the Gross Fixed Capital Formation started to expand in the Iranian economy and registered 3.4 percent growth rate in the first 9 months of 1403 at constant 1400 prices. Note that Gross Fixed Capital Formation at constant 1400 prices during the first 9 months of 1403 still amounts less than that of the

initial years of 1390s. All in all, the 3 subgroups of the Gross Fixed Capital Formation, including Machinery, Construction and Other expanded during the first 9 months of 1403 with

respective growth rates of 4.1 percent, 2.7 percent, and 2.9 percent. Table 2 presents the GDP growth rate from the demand side by its components.

Table 2. GDP Growth Rates from the Demand Side at Constant 1400 Prices

	1399	1400	1401	1402	1403				Share in Total in the First 9 Months of 1403 (at current prices)
					Q1	Q2	Q3	First 9 Months	
Private Consumption	-0.5	6.5	5.3	1.6	1.5	2.3	6.2	3.3	43.8
Public Consumption	-0.3	9.0	-0.8	-0.6	-3.4	4.4	7.9	3.1	12.0
Gross Fixed Capital Formation	4.6	4.5	9.2	6.3	2.2	3.3	4.4	3.4	23.9
Machinery	3.7	14.4	14.7	6.2	0.2	4.3	6.3	4.1	12.5
Construction	4.2	-3.1	3.5	7.0	4.2	2.4	1.6	2.7	11.0
Other	39.6	-3.1	22.1	-4.4	-2.0	4.3	6.9	2.9	0.5
Exports of Goods and Services	-10.0	5.6	7.7	13.2	12.0	5.1	6.3	7.6	22.2
Imports of Goods and Services	-20.9	22.0	8.8	1.5	0.8	-0.2	-9.2	-3.1	24.0
GDP at Market Prices	4.4	4.1	4.4	5.3	3.9	3.5	3.9	3.7	100.0

Source: Central Bank of Iran

In addition to the CBI, the SCI also issues data on the Iranian national accounts. On the basis of the SCI report, the GDP growth rate in 1403 as a whole registered 3.0 percent at constant 1400 prices, 1.6 percentage points below that of 1402. From a quarterly viewpoint, in the year 1403, Iran's GDP grew by 4.6 percent in spring, by 3.1 percent in summer, by 1.6 percent in fall, and by 2.9 percent in winter. On the basis of the SCI, the growth rate

of the Extraction of Oil and Natural Gas that in a downward path registered 10.3 percent, 6.2 percent, and 2.0 percent, respectively, in spring, summer, and fall 1403, reversed course and in winter of the same year rose to 6.2 percent, causing the annual expansion of that subsector to reach 6.2 percent in 1403. As for the Non-oil GDP growth rate, the corresponding figure in the SCI report registered 2.1 percent in 1403.

1-1. Agriculture

According to the national accounts of Iran in the CBI books, the Agriculture sector encompasses Farming, Forestry, Hunting, Animal Husbandry, Aviculture, Horticulture, and Fishery activities. However, in the preliminary report of the CBI on the developments of the real sector of the economy, all subsectors of Agriculture sector were not investigated and only annual growth rates of 14.8 percent, 8.4 percent, and 4.5 percent were reported for Farming products, Horticultural products and Livestock products in the first 9 months of 1403, respectively. However, the aforementioned expansions are neither consistent with the 3.7 percent expansion of the Agriculture sector as a whole, nor with the corresponding figure of the SCI in that regard in the first 9 months of 1403. Contrary to the CBI, in the SCI categorization, the Agriculture sector contains 2 subsectors of "Agriculture, Horticulture, Hunting, and

Forestry" as well as "Fishery". The Fishery that accounts for a negligible share in GDP, grew by 3.2 percent in 1403 at constant 1400 prices and is almost dependent of the rest of the economic sectors. The Agriculture, Hunting, and Forestry also grew by the same rate of 3.2 percent in 1403, causing the Agriculture sector to expand by 3.2 percent in the year 1403 as a whole and far above its 2.4 percent contraction in 1402. The SCI report suggests positive growth rates of 2.3 percent, 3.1 percent, 4.2 percent, and 2.5 percent in the Agriculture sector in the 4 consecutive quarters of 1403, respectively. The CBI has also reported positive growth rates for the Agriculture sector in the first 3 quarters of 1403 at 3.2 percent, 3.8 percent, and 4.1 percent, respectively, a little above those in the SCI report. Hence, it seems that contrary to its preceding year, in 1403 the Agriculture sector has enjoyed a desirable climate. On

the basis of the weather stations, during the water year 1402-1403 (from beginning of 1402Q3 to the beginning of 1403Q3), the total rainfalls have increased by 22.3 percent compared to its preceding water year. The CBI data suggests that in the year 1402, the Agriculture sector had expanded by 0.8 percent only, at constant 1400 prices.

The share of the Agriculture sector in GDP at current prices in the CBI report is far different from that of the SCI. According to the CBI, the Agriculture sector constituted 14.7 percent of the GDP in the first 9 months of 1403 (above the 8.4 percent share of the Oil sector), while the SCI has reported 8.7 percent and 7.4 percent share for the same sector, respectively, for the first 9 months of 1403 and the year 1403 as a whole. All in all, the fall in the share

of the Agriculture sector in GDP in 1403Q4 would result in the fall in the share of that sector for the whole year compared to the first 9 months of 1403.

The Islamic Republic of Iran Customs Administration (IRICA) report suggests that the agricultural exports of Iran rose by 29 percent to USD5.2 billion in 1403 compared to 1402. In 1403, the top 3 exported agricultural products of Iran were pistachio (USD1.5 billion), tomato (USD233 million), and dates (USD205 million). During 1403, Iraq was the top one exports destination of Iran with 40 percent share in Total exports of the country. According to the Ministry of Agriculture Jihad, the USD3 billion improvement in agriculture trade balance of the country in 1403 has caused that balance to take a positive value in that year.

1-2. Industries and Mining

The CBI report suggests that during the first 9 months of 1403, the Industries and Mining sector has constituted 27.5 percent of Iran's GDP, 1.7 percentage points below that of the same period of 1402. From 1399 onwards, the share of Industries and Mining sector in GDP started a downward path, partly due to the rise in the share of Oil sector in the Iranian economy during the same period. The Industries and Mining itself, is divided into 5 distinct subsectors of "Manufacturing", "Mining", "Electricity, Gas, Steam and Air Conditioning Supply", "Water supply; Sewerage, Waste Management and Remediation Activities" and finally "Construction", that expanded by 2.1 percent, 3.1 percent, 2.2 percent, 0.1 percent and 3.3 percent in the first 9 months of 1403, respectively. From fall 1400 onwards, the Manufacturing subsector has been expanding, albeit its expansion was slowing down in 1402 and 1403.

In the SCI categorization, the Industries and Mining forms 50.4 percent of the GDP in the year 1403 at current prices. Note that contrary to the CBI, the SCI considers the Oil sector as a subgroup of Industries and Mining, not as a separate group. By excluding Oil from Industries and Mining, the share of this group in GDP declines to 27.6 percent at current prices, far close to the corresponding figure in the CBI report. The SCI report suggests that from 1400 onwards, the Industries and Mining sector

has continually lost its share in GDP. In the SCI books, in addition to the Extraction of Oil and Gas, the Industries and Mining sector also contains Other Mines, Manufacturing, Distribution of Natural Gas, Water and Electricity Supply and finally Construction. On the basis of this issuing authority, in the year 1403, the Manufacturing subgroup expanded by 1.6 percent at constant 1400 prices, 0.3 percentage point below that of 1402.

As for the Mining subsector, the CBI has reported 3.1 percent expansion for the first 9 months of 1403, while the SCI reported 0.5 percent growth rate for the corresponding subsector in its report, under the title of Other Mines (except oil and natural gas), albeit for 1403 as a whole. However, both issuing authorities indicated a slowdown in the growth rate of that subsector. The CBI reported 3.3 percent expansion for the Construction subsector (residential and non-residential buildings, road construction, dam construction, etc.) in the first 9 months of 1403, above the 0.8 percent growth rate of the same period of 1402, while below the 4.3 percent of the year 1402 as a whole. Contrary to the CBI, the SCI reported 0.5 percent growth in the Construction subsector in 1403, down 3.1 percentage points from that of 1402. Unofficial data also indicate a downturn in that subsector in 1403.

The subsector of Electricity, Gas, Steam and Air Conditioning Supply has been continually growing in the last two decades even in the recession era, thanks to the uniform growth rate of the population in conjunction with demand for gas and electricity. On the basis of the CBI, this subsector has expanded by 2.2 percent in the first 9 months of 1403, down 2.2 percentage points from that of the same period of its preceding year. The continuous expansion of the subsector of Water supply; Sewerage, Waste management and Remediation Activities in the years prior to 1403 is also attributable to the same reason, however, in the first 9 months of 1403, this subsector has grown by 0.1 percent only. On the basis of the SCI report, the subsector of Water and Electricity Supply grew by

2.4 percent in 1403 as a whole. In the same period, the subsector of Distribution of Natural Gas grew by 0.5 percent only.

All in all, the CBI report suggests 2.4 percent expansion in Industries and Mining in the first 9 months of 1403, indicating 2.0 percentage points decline from the same period of 1402. In the SCI report, the growth rate of the corresponding sector (excluding Extraction of Oil and Natural Gas) is calculated 1.3 percent for 1403, standing 0.4 percentage point above that of 1402. In Table 3, the growth rate of Industries and Mining sector is presented by its various subsectors.

Table 3. Growth Rates of Industries and Mining by Its Various Subsectors at Constant 1400 Prices (percent)

	1399	1400	1401	1402	1403			
					Spring	Summer	Fall	First 9 Months
Industries and Mining	12.1	2.7	8.9	5.1	2.8	1.0	3.4	2.4
Mining	11.9	13.1	16.8	4.7	4.6	3.0	1.5	3.1
Manufacturing	13.4	3.4	10.0	5.3	2.3	0.3	3.8	2.1
Electricity, Gas, Steam and Air Conditioning Supply	6.6	3.1	2.2	3.9	2.7	0.7	3.5	2.2
Water Supply; Sewerage, Waste Management and Remediation Activities	6.2	4.5	1.4	1.8	1.4	-0.6	-0.5	0.1
Construction	8.2	-5.4	0.3	4.3	3.9	3.0	3.1	3.3

Source: Central Bank of Iran

In the first 9 months of 1403, the Industrial Production Index stood 1.8 percent above that of the first 9 months of 1402. During the period under discussion, the group of Other Products enjoyed the highest expansion in production index at 18.0 percent, while the group of Leather Products experienced the highest contraction of 10.3 percent in that regard. The production index of the group of Basic Metals - with a 36.9 percent share in the value-added of large manufacturing enterprises - experienced a slight change in the first 9 months of 1403 compared to the same period of 1402. Moreover, the production index of Chemical Products - with a 27.7 percent share in the value-added of the large manufacturing enterprises - expanded by 3.6 percent in the first 9 months of 1403 compared to same period of its preceding year. The group of Food Products that is classified as the 3rd largest industry in Iran with a 6.9 percent share in the value-added of the large manufacturing enterprises, experienced 5.0 percent expansion in production index in the time span under discussion. The production index of Non-metallic Mineral Products - with a 5.3 percent share in the value-added of large manufacturing enterprises - remained unchanged during the first 9 months of 1403 compared to the same period of preceding year. In the same period, the production index

of Motor Vehicles as well as Pharmaceuticals, respectively, expanded by 4.3 percent and 2.1 percent - the share of former in the total value-added of large manufacturing enterprises registered 4.1 percent and that of the latter registered 3.3 percent. Accordingly, as for Basic Metals and also Non-metallic Minerals, there existed no desirable conditions for production.

Moreover, on the basis of Iran Chamber of Commerce, Industries, Mines & Agriculture, the seasonally-adjusted Purchasing Manager's Index (PMI) in the manufacturing subsector has averaged 49.7 in 1403, below the average of 52.0 in 1402. Note that the PMI is analyzed on a monthly basis and the values above 50 translate to monthly improvement, whereas values below 50 mean that the state of production has worsened compared to its preceding month. The seasonally-adjusted PMI for manufacturing subsector in 1403 dropped below 50 in 7 out of 12 months of 1403. Hence, the PMI developments show that the manufacturing subsector has been deteriorating during much of 1403. Business Activities, New Orders, Suppliers' Delivery Time, Raw Material Inventory, and Employment are the five main sub-indices of PMI.

Oil

According to the latest CBI report on the developments of the real sector of the Iranian economy, the value added of the Oil Sector grew by 6.0 percent at constant 1400 prices during the first 9 months of 1403, indicating 14.3 percentage points fall and far below its 20.3 percent in the same period of 1402.

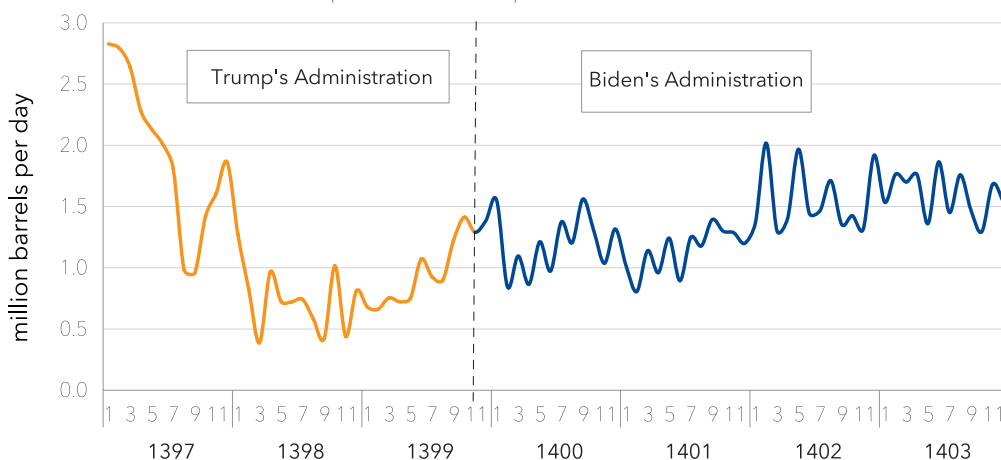
In recent years, data on Iran's oil exports have been treated as highly confidential and almost no official data have been released in that regard. According to the Tanker Trackers website ¹, Iran's oil exports averaged 1.6 million barrels per day (mbpd) in 1403. Graph 1 depicts the developments of Iran's oil exports from 1397 to 1403 based on this source. The Graph clearly reflects the strong dependence of Iran's oil exports on the US sanctions policy.

In addition to the new international pressures on Iran and in the aftermath of the US unilateral withdrawal from the

Joint Comprehensive Plan of Action (JCPOA) under the Trump administration in May 2018 (roughly second month of Iranian calendar), Iran's oil exports experienced a sharp and persistent decline. By the end of 1398, Iran's oil exports that had fallen to below one mbpd in some months, even dropped further to under 0.5 mbpd. The fall in global oil demand following the COVID-19 pandemic in 2020 further contributed to keep Iran's oil exports at depressed levels.

Since the second half of 1399 and coinciding with the beginning of Joe Biden's presidency, the downward trend in Iran's oil exports reversed course and it gradually increased. Although US sanctions were not formally lifted, the new political environment coupled with the new US Administration focus on reviving diplomatic interaction with Iran, effectively created more room for the country to maintain its share in the oil market. As a result, Iran's average oil exports rose from around 1.0 mbpd in 1399 to around 1.5 mbpd and even more in 1402 and 1403.

Graph 1. Iran's Oil Exports in Recent Years



Source: Tanker Trackers website
 Note: The data reported by Tanker Trackers are based on the Gregorian calendar months, which have been approximately aligned with the Iranian calendar months in this Graph.

Table 4 presents Iran's monthly oil exports to its destinations in 1403, which ranged from 1.29 mbpd to 1.87 mbpd. Monthly fluctuations during this period were mainly rooted in the political conditions, nuclear negotiations, and shifts in the global oil market. Iran's daily oil exports in 1403 stood about 62.8 percent higher than that of 1399 on average, while showing only 2.6

percent increase compared to 1402. In fact, the reelection of Donald Trump as the US president by the end of 1403 had no significant impact on Iran's oil exports, possibly because the channels of nuclear negotiation between the two sides remained open.

1. The website is an independent online service that tracks and reports shipments of crude oil in several geographical and geopolitical points of interest.

Table 4. Iran's Oil Export Destinations in 1403 (barrels per day)

Month	China	Oman	Syria	UAE	Unknown	Total
2024						
April	1,388,073	-	57,490	64,969	23,972	1,534,805
May	1,476,911	10,283	67,776	65,456	67,916	1,764,176
June	1,473,426	-	36,503	118,115	37,921	1,699,431
July	1,483,717	-	107,790	88,362	-	1,759,869
August	1,295,243	-	52,608	11,857	-	1,359,708
September	1,783,127	-	36,185	12,229	33,478	1,865,028
October	1,359,585	-	57,247	34,582	-	1,451,414
November	1,697,987	-	61,095	-	-	1,759,082
December	1,430,988	-	8,970	-	28,683	1,468,599
2025						
January	1,270,865	-	-	13,969	9,677	1,294,511
February	1,681,444	-	-	-	-	1,681,444
March	1,485,215	-	-	23,059	32,226	1,540,540

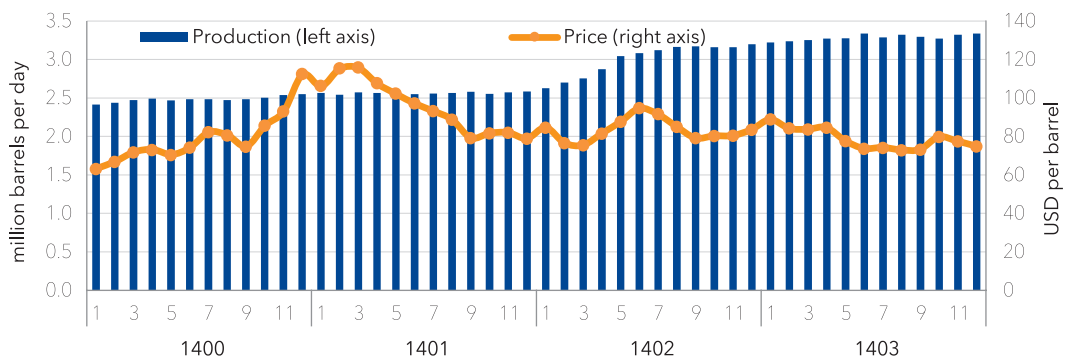
Source: Tanker Trackers website
 Note: The data reported by Tanker Trackers are based on the Gregorian calendar months, which have been approximately aligned with the Persian calendar months in this figure.

The official publication of Iran’s oil production data was nearly disrupted with the beginning of the new round of sanctions in 1397, hence the best available data comes from the OPEC reports, which themselves are based on secondary sources. According to these reports, the country’s total crude oil production in March 2025 (approximately corresponding to 12th month of 1403) reached about 3.3 mbpd, reflecting 4.3 percent increase compared to the same month of its preceding year. The average production in 1403 was approximately 3.3 mbpd, showing a 9.4 percent growth compared to the average of 3.0 mbpd in 1402. Nevertheless, it seems that due to the technical limitations and the aging of equipment and oil wells, Iran’s oil production has approached its

maximum capacity, and further increases in production are not achievable in the short-run. Graph 2 shows the average daily crude oil production and the average price of Iran’s heavy oil from the beginning of 1400 to the end of 1403.

After a sharp decline during the COVID-19 pandemic in 1399, the price of Iran’s heavy crude oil followed an upward trend, exceeding USD100 per barrel in the early months of 1401, although it then showed a relative decrease. The price of Iran’s heavy crude oil in 1403 averaged USD78.7 per barrel, reflecting a 5.6 percent decrease compared to the average price in 1402.

Graph 2. Average Daily Crude Oil Production and Average Price of Iranian Heavy Oil



Source: OPEC monthly reports, production level based on the secondary sources.
 Note: OPEC statistics are based on Gregorian calendar years and their conversion into Persian calendar years are only approximate.

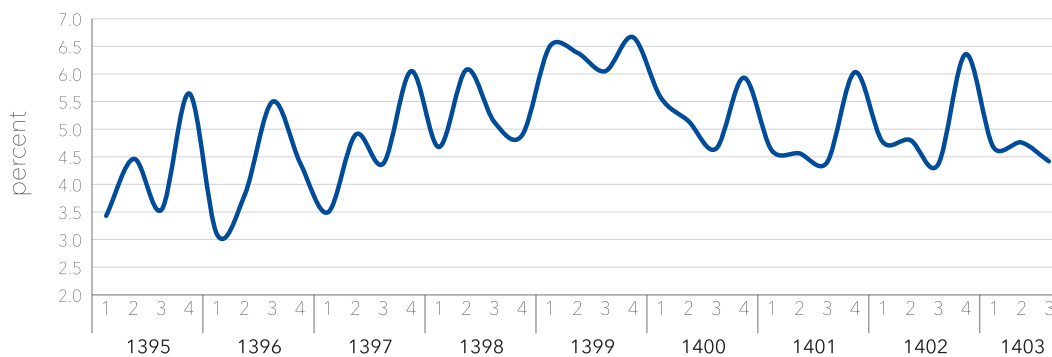
Despite the relative improvement in Iran’s oil exports in recent years, the level of oil exports still remains significantly lower than that in the JCPOA era. In fact, unlike production levels, a short-term increase in oil exports could be expected if a new nuclear agreement is obtained.

Housing

The share of construction in GDP at current prices decreased slightly from 4.64 percent in the first 9 months of 1402 to 4.61 percent in the corresponding period of 1403. From a historical perspective, the report by the IRI

Parliament Research Center in that regard suggests the average share of construction value added in GDP at 4.8 percent between 1340 and 1382 and at 4.65 percent during the period 1376 to 1384, indicating relatively high values. Although the same share in 1403 shows a slight decline compared to its historical records, it could not be considered as evidence of recession in that subsector. The share of the construction subsector in GDP at current prices is presented in Graph 3 from spring 1395 to fall 1403. Note that as the data is not seasonally-adjusted, the same quarters of consecutive years are supposed to be compared.

Graph 3. Share of Construction Value-added in Iran’s GDP



Source: Central Bank of Iran

In 1403, Iran’s housing market moved in line with its trends observed in its preceding years. The data on the number of building permits issued in urban areas indicate that following a substantial decline in 1400 and 1401, it has increased slightly in 1402 and remained relatively stable during the first 9 months of 1403. The total number of permits issued in the first 9 months of 1403 reached approximately 90,000, representing 10.7 percent increase compared to the same period of its preceding year.

Out of the total issued permits, 5,400 were attributed to Tehran city during the same period, showing no change relative to that in the same period of 1402. Accordingly, the nationwide increase in building permits, coupled with the stability in Tehran city, suggests a relative stagnation in construction activities in the Capital. The number of building permits issued in urban areas is presented in Table 5.

Table 5. Number of Building Permits Issued in Urban Areas (thousand)

	Tehran	Metropolitan Cities	Other Urban Areas	Total Urban Areas
1399	7.2	41.9	114.3	163.4
1400	5.8	30.2	85.2	121.2
1401	5.8	27.9	78.2	111.9
1402	7.5	29.9	81.0	118.4
Spring	1.6	7.6	23.9	33.1
1403	2.0	7.3	19.4	28.7
Summer				
Fall	1.8	6.9	19.6	28.3

Source: Central Bank of Iran

Furthermore, the price indices for construction services and producing building materials was continually rising in 1403. Over roughly 3 years, the construction services price index (1400=100) reached 319 by the end of fall 1403, indicating 219 percent increase and the producer price index for building materials grew by 120.7 percent.

These price increases, accompanied by weak effective demand, caused the final cost of construction to rise and ended up in lower incentives for new investment. The point-to-point growth rates of construction subsector price indices are presented in Table 6.

Table 6. Point-to-point Growth Rate of Construction Price Indices (1400=100 and in percent)

	Construction Services Price Inflation	Producer Price Inflation for Building Materials
1401	51.2	31.1
1402	49.5	33.5
1403		
Spring	39.2	15.3
Summer	36.1	20.6
Fall	34.6	25.1

Source: Central Bank of Iran

Alongside rising construction costs, real private investment in new urban buildings has also declined noticeably. The value of private sector investment in new urban buildings at 1395 constant prices (using the CBI consumer price index) fell from IRR702.7 trillion in the first 9 months of 1402 to IRR688.6 trillion in the corresponding period of 1403, indicating 2.0 percent contraction. Between 1400 and 1402, real private investment in new buildings in Tehran city contracted sharply, recording annual declines of 30.5 percent, 23.3 percent and 17.1 percent, respectively. In contrast, private investment in new buildings in other urban areas did not contract and even experienced net positive growth over the three-year period under review, suggesting a gradual geographical shift in construction

away from Tehran toward other urban regions.

In the first 9 months of 1403, the point-to-point growth rate of real private investment in new urban buildings was negative 1.2 percent in Tehran, negative 2.7 percent in metropolitan cities and negative 1.7 percent in other urban areas. The smaller decline in real private investment in new buildings in Tehran than in other cities and regions, together with the stability in the number of building permits issued in that city compared to the increasing number of permits in other cities, might call for higher investment for construction projects in Tehran. The details of real private investment in new urban buildings at constant 1395 prices are presented in Table 7.

Table 7. Private Investment in New Urban Buildings at Constant 1395 Prices (IRR trillion - percent)

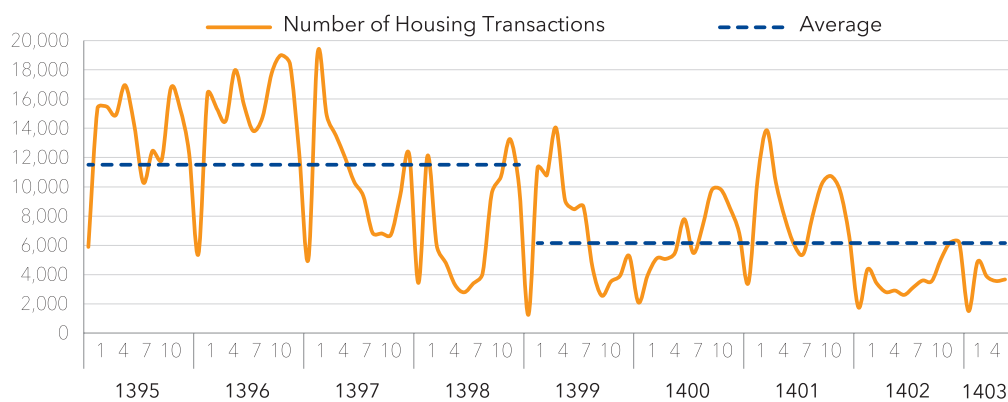
	Tehran		Metropolitan Cities		Other Urban Areas		Total Urban Areas	
	Investment	Growth Rate	Investment	Growth Rate	Investment	Growth Rate	Investment	Growth
1399	258.8	52.0	390.9	25.8	445.0	44.7	1,094.7	38.8
1400	180.0	-30.5	407.7	4.3	465.0	4.5	1,052.7	-3.8
1401	138.1	-23.3	367.6	-9.8	456.8	-1.7	962.5	-8.6
1402	114.5	-17.1	350.9	-4.5	458.0	0.3	923.5	-4.1
1403								
Spring	24.9	-13.7	79.6	-11.0	121.7	2.8	226.2	-4.4
Summer	26.6	-14.0	97.7	9.1	109.1	-9.2	233.4	-3.0
Fall	36.2	24.9	81.9	-6.4	110.9	1.0	229.0	1.2

Source: Central Bank of Iran

On the demand side, the most recent CBI report on the housing market developments in Tehran city, covered till the 5th month of 1403, while preparing this Annual Report. The CBI data on the number of housing transactions in Tehran city reveals a prolonged stagnation in this market.

As shown in Graph 4, the average number of monthly transactions of residential units declined from 11,510 units during 1395-1398 to 6,153 units from the beginning of 1399 through the 5th month of 1403.

Graph 4. Number of Transactions of Residential Units in Tehran City



Source: Central Bank of Iran

Using the CBI average housing price for Tehran city and the SCI consumer price index (1400=100), the annual real growth rate of housing prices in Tehran city from the 5th month of 1395 to the 5th month of 1403 averaged 10.4 percent, and the real expansion between the beginning and the end of this eight-year period registered 120.6 percent. Specifically, the average price of a square meter of residential units in Tehran city rose from IRR44.0 million in the 5th month of 1395 to IRR885.0 million in the 5th month of 1403, while the consumer price index (1400=100) increased from 28.4 to 259.5 over the same period.

Note that housing's share in total household expenditures has reached its historical high levels, and the expected number of years for purchasing house has also risen sharply. As shown in Table 8, the average number of years required for an urban household to purchase a 70-square-meter residential unit in Tehran reached approximately 20 in 1402. This indicator is calculated using the average housing price in Tehran (published by the CBI) and the average annual total income of an urban household (published by the SCI), assuming that the entire household income is saved exclusively for housing purchase.

Table 8. Estimated Number of Years Required to Purchase a 70-Square-Meter Residential Unit in Tehran

	Average Housing Price in Tehran (IRR million)	Average Annual Total Income of an Urban Household (IRR million)	Average Number of Years Required to Purchase a 70-Square-Meter Residential Unit in Tehran
1395	44.1	317.2	9.7
1396	47.9	366.8	9.1
1397	82.2	434.9	13.2
1398	132.3	541.0	17.1
1399	238.6	746.7	22.4
1400	314.8	1,124.2	19.6
1401	458.8	1,669.6	19.2
1402	749.0	2,569.3	20.4

Source: Central Bank of Iran and research calculations

1-3. Services

As the largest sector of the Iranian economy that constituted almost half of the GDP in the first 9 months of 1403 (49.4 percent at current prices), the Services Sector expanded by 3.0 percent in that period at constant 1400 prices on the basis of the CBI report, below the 4.0 percent in the same period of 1402. The Services Sector contributed to the GDP growth rate of the first 9 months of 1403 by 1.3 percentage points, below its 1.8 percentage points contribution in the same period of its preceding year. Among the subsectors of Services, "Wholesale & Retail Trade; Repair of Motor Vehicles/cycles" that constituted 13.7 percent of the GDP in the first 9 months of 1403 at current prices, is considered as the largest subsector with 2.4 percent expansion and 0.3 percentage point contribution to the

3.1 percent GDP growth rate at constant prices in the period under review. All subsectors of Services expanded but the "Administrative and Support Service Activities" that contracted by 1.7 percent during the 9-month period under discussion. Note that this subsector of Services has been continually contracting in the past 8 years. As for other subsectors of Services, the highest expansion of 19.1 percent was attributed to "Art, Entertainment and Recreation" in the first 9 months of 1403, followed by "Information and Communication" with 13.4 percent - the latter had expanded by 35.7 percent in the same period of 1402. The growth rates of the subsectors of the Services on the basis of the CBI report are presented in Table 9.

Table 9. Growth Rates of Services Subsectors at Constant 1400 Prices (percent)

	1399	1400	1401	1402	1403			
					Spring	Summer	Fall	First 9 Months
Services	0.5	5.7	1.2	4.0	2.1	2.5	4.3	3.0
Wholesale and Retail Trade, Repair of Motor Vehicles/Cycles	3.1	5.8	8.7	3.8	2.0	1.2	3.9	2.4
Transportation and Storage	-1.6	6.0	6.0	9.0	8.0	-1.6	1.7	0.3
Accommodation and Food Services Activities	-39.2	35.3	28.6	15.7	-3.9	9.0	9.4	4.7
Information and Communication	24.8	16.6	3.2	33.2	15.9	13.6	11.1	13.4
Financial and Insurance Activities	6.1	-6.5	6.0	0.0	0.7	1.8	12.5	4.9
Real Estate Activities	3.4	1.1	3.3	1.9	2.3	2.1	1.5	2.0
Professional, Scientific, and Technical Activities	-1.4	17.2	10.8	-4.2	4.4	11.6	11.5	9.0
Administrative and Support Service Activities	-3.4	-2.0	-14.2	-5.6	-1.7	-4.0	1.0	-1.7
Public Administration and Defence, Compulsory Social Security	-0.9	8.9	-17.5	-1.5	-2.1	1.8	2.4	0.7
Education	-8.9	6.5	-17.4	4.3	7.9	8.7	3.2	6.6
Human Health and Social Work Activities	-4.7	15.9	-1.4	5.0	4.2	10.0	11.8	8.8
Art, Entertainment, and Recreation	0.2	7.6	-2.3	5.5	5/20	21.9	14.6	19.1

Source: Central Bank of Iran

The SCI report on the Services Sector in 1403 is far different from that of the CBI, partly due to the distinct categorizations of the Services Sector by those issuing authorities. The SCI report suggest that in the year 1403 as a whole, the Services Sector has expanded by 2.5 percent at constant 1400 prices, 1.1 percentage points below that of 1402. Moreover, the Services Sector has formed 42.2 percent of the GDP at current prices in 1403, indicating negligible decline of 0.3 percentage point from 1402. Among the subsectors of Services in the SCI books, "Wholesale and Retail, Hotel and Restaurant" with 12 percent share in GDP at current prices as the largest subsector, expanded by 0.9 percent at constant prices in 1403 as a whole - much of this small growth rate however was obtained in winter that year. Moreover,

there is a significant difference between the SCI and the CBI data regarding "Financial Intermediation" in the SCI books and its corresponding subsector in the CBI books tilted "Financial and Insurance Activities". For instance, the SCI reported 9.0 percent expansion in "Financial Intermediation" in the first 9 months of 1403, while CBI data suggested only 4.9 percent expansion in the same period for the corresponding subsector. As for the year 1403 as a whole, "Financial Intermediation" enjoyed the highest expansion of 10.2 percent on the basis of the SCI among various subsectors of Services. Other subsectors of Services have also expanded except "Social, Personal, and Home Services" with 1.5 percent contraction in 1403.

2. LABOR MARKET

The latest report of the SCI on the Iranian labor market while preparing this Annual Report suggests 41.0 percent participation rate as well as 7.6 percent unemployment rate for the population aged 15 and above in the year 1403 as a whole, respectively 0.3 and 0.5 percentage points below those of the year 1402. The participation rate that in a continuous downward path had declined to 40.9 percent in 1401 from 44.1 percent in 1398, eventually reversed course and in 1402 rose to 41.3 percent. The rise in that rate did not last long, however, and in 1403 again fell to 41.0 percent. The employment ratio which represents the ratio of employed population to the total population at working age has remained the same in 1402 and 1403, signaling that job opportunities have changed in proportion with the rise in the population. Accordingly, the fall in the unemployment rate of 1403 is mainly owed to the fall in the participation rate, translating to disappointment of part of the working age population from finding job and quitting the labor market. The underemployment (working less than 44 hours a week) registered 7.6 percent in 1403, indicating 0.6 percentage point fall from its preceding year.

In 1403 and compared to its preceding year, 786.4 thousand individuals were added to the working age population, of which, 48.5 percent were male (381.7 thousand) and 51.5 percent were female (404.8 thousand). In the same year, 179.7 thousand individuals were added to the active population (accounting for only 22.8 percent of the total population added to the working age), of which, 157.3 thousand (87.6 percent) were male and the remaining were female. Accordingly, 41.0 percent of the working age population were active in 1403, indicating 0.3 percentage point fall from its preceding year. Note that the smaller participation rate in the Iranian labor market compared to the other countries has been an integral feature of the Iranian economy at least in recent decades. This small rate, nevertheless, roots in the female population of the country i.e., out of 32.7 million Iranian females aged 15 and above, only 4.6 million have been willing to work in 1403 and out of this small population, 14.3 percent were unemployed, far above the 6.2 percent unemployment rate among males in the same year. After a long time, in the years 1401 and 1402 the number of active female population increased, but in 1403 it remained almost unchanged. In 1403, 404.8 thousand were added to the female population at working age, causing the female participation rate to decline by 0.1 percentage point to 14.1 percent. This small participation rate of the females conveys that regardless of the deficiencies of the educational system, insufficient room has been left for females in the Iranian labor market. The difference between the males' and females' unemployment rates has frequently existed in much of the past half a century, making that substantial inactive population of females a challenge in the Iranian labor market.

The unemployment of youth as well as the population with higher education is also a matter of concern. In 1403, among the 1.4 million of the population aged 18 to 35, 14.7 percent were unsuccessful in finding job in total, and by gender, the unemployment among females in the same age group reached 24.9 percent. As for the population with higher education, the total unemployment rate reached 11.3 percent with 19.1 percent among females in this group. In 1403, out of the total unemployed population, 42.2 percent were highly-educated. The higher rate of unemployment of population with higher education than the total reveals that higher education has not assisted the graduates in finding job and even has served as a hindrance in that regard. In other words, the higher education that is considered as an investment by the governments and households has not been that fruitful for a large number of graduates seeking for a job.

Additionally, 24.3 percent of the population aged 15 to 24, has neither been employed nor student in 1403, indicating 1.3 percentage points drop from 1402. The total population aged 15 to 24 was estimated 11.3 million, of which 2.6 million were active only. Among the active population in the same group, 528.3 thousand were unemployed, translating to 20.1 percent unemployment rate.

In 1403, close to 24.8 million of population aged 15 and above were employed, up 298 thousand from 1402. Out of this population, 13.9 percent were enrolled in Agriculture sector, 33.3 percent in Manufacturing, and 52.7 percent in the Services sector. The 2 former sectors in aggregate lost their share in total

employed population by 0.9 percentage point in 1403 in favor of the Services sector. Part of this population, however, has been underemployed, meaning that they have worked less than 44 hours a week due to some economic issues, despite their willingness to work more. The underemployment constituted

about 1.9 million of the employed population with 7.6 percent share in 1402, down 0.6 percentage point from 1402. Major Labor market indices in 1402 and 1403 are presented in Table 10.

Table 10. Major Labor Market Indices by Gender for the Population Aged 15 and Above

		1402			1403		
		Total	Male	Female	Total	Male	Female
Economic Participation	Rate (percent)	41.3	68.4	14.2	41.0	68.1	14.1
	Number (million)	26.6	22.0	4.6	26.8	22.2	4.6
Employment	Rate (percent)	37.9	63.9	12.1	37.9	63.9	12.1
	Number (million)	24.5	20.6	3.9	24.8	20.8	4.0
Unemployment	Rate (percent)	8.1	6.6	15.0	7.6	6.2	14.3
	Number (million)	2.1	1.5	0.7	2.0	1.4	0.7
Unemployment of Population Aged 18-35	Rate (percent)	15.2	12.3	26.0	14.7	12.0	24.9
	Number (million)	1.5	1.0	0.5	1.4	0.9	0.5
Unemployment of Population with Higher Education	Rate (percent)	11.8	7.9	20.3	11.3	7.7	19.1
	Number (million)	0.9	0.4	0.5	0.9	0.4	0.5
Share of the Underemployment (percent)		8.2	8.9	4.7	7.6	8.2	4.5
Population Aged 15 and Over (million)		64.6	32.2	32.3	65.3	32.6	32.7

Source: Statistical Center of Iran

3. FISCAL POLICY

Budgeting as a policy instrument plays a dominant role in national economy and is of high importance in the Iranian economy given the large size of the Government. In addition to the projection of revenues and expenditures and their effects on macroeconomic variables, the method of financing budget imbalances in response to external shocks is also a matter of concern.

3-1. Budget Law and Bill of 1403

In the Budget Law of 1403 (1403 Law for short), IRR28,371 trillion was legislated for the Government General Budget, 25.3 percent up from that of 1402 Law. Moreover, IRR37,416 trillion was legislated for Budget of State-owned Companies, banks, and Profit Institutions affiliated to the Government in 1403 Law, indicating 29.7 percent rise compared to the 1402 Law. Hence, the Total Government Budget in 1403

Law reached IRR64,587 trillion, up 29.3 percent from that of 1402 Law. It is noteworthy that the sources and uses of the Total Government Budget in 1403 Law contracted by 0.3 percent compared to 1403 Budget Bill (1403 Bill for short) due to deduction of IRR1,200 trillion under the title of Double-counted Figures. An overview of the 1403 Law is presented in Table 11.

Table 11. Main Subdivisions of 1403 Budget Law and Bill (IRR trillion-percent)

	1402 Law	1403 Bill	1403 Law	1403 Law to 1402 Law Percentage Change	1403 Law to 1403 Bill Percentage Change
Total Government Budget	49,947.1	64,787.4	64,587.1	29.3	-0.3
Government General Budget	22,634.9	27,371.4	28,371.4	25.3	3.7
General Sources	20,823.3	24,620.4	25,620.4	23.0	4.1
Dedicated Revenues	1,811.6	2,751.0	2,751.0	51.9	-
Budget of State-owned Companies, Banks and For-profit Institutions Affiliated to Government	28,839.1	37,415.7	37,415.7	29.7	-

Source: Budget Laws of 1402 and 1403 and Budget Bill of 1403

■ Government General Budget

The Government General Budget itself consists of General Sources (General Uses) and Dedicated Revenues (Uses from Dedicated Revenues). The Dedicated Revenues that are gained via the public organizations are spent within the same organizations, i.e., these sorts of revenues are not directed to the Treasury to be reallocated to other sectors. Therefore, only the General Sources are directly in hands of the Government and the Treasury which itself consists of three components of General Revenues (such as tax revenues and receipts from government properties), Disposal of Non-financial Assets (mainly oil exports and disposal of government properties), and Disposal of Financial Assets (mainly sales of debt securities, disposal of

state-owned companies, and withdrawal from the National Development Fund). The Government spends these revenues for Current Expenditures (mainly compensation of employees and pension funds), Acquisition of Non-financial Assets (development expenditures), and Acquisition of Financial Assets (settlement of unpaid obligations from previous years). Due to the air of optimism regarding higher Oil Revenues, in 1402 Law the share of Oil Revenues in General Sources was considered 30.0 percent, while in 1403 Law, that share is decreased to 22.7 percent. In fact, only in 1399 this share was remarkably cut to about 10 percent and in the Budget Laws of 1400 and 1401 again rose to 27.3 percent and 35.2 percent, respectively. The details of General Sources and Uses of 1403 Law are presented in Table 12.

Table 12. General Sources and Uses in 1403 Law and Bill (IRR trillion-percent)

Sources	1403			1403 Law to 1402 Law Percentage Change	Share in General Sources of 1403 Budget Law	Uses	1402			1403 Law to 1402 Law Percentage Change	Share in General Sources of 1403 Budget Law
	1402 Law	Law	Bill				1402 Law	Bill	Law		
Revenues (general)	10,540.9	14,983.0	15,983.0	51.6	62.4	Expenditures (current)	15,088.4	18,037.4	18,787.4	24.5	73.3
Tax	8,944.5	12,645.0	13,645.0	52.6	53.3						
From State-owned Properties	1,045.4	1,350.0	1,349.3	29.1	5.3						
From Sales of Goods and Services	260.1	465.0	461.5	77.4	1.8						
From Crime and Damage Fines and Other Revenues	290.8	523.0	527.3	81.3	2.1						
Operating Balance							-4,547.6	-3,054.4	-2,804.3	-38.3	-
Disposal of Non-financial Assets	7,322.5	6,445.6	6,445.6	-12.0	25.2	Acquisition of Non-financial Assets (development expenditures)	3,750.0	3,750.0	4,000.0	6.7	15.6
Receipts from Crude Oil and Oil Products	6,238.1	5,827.4	5,827.4	-6.6	22.7						
Receipts from Sales or Disposal of Properties and Development Plans	1,084.4	618.2	618.2	-43.0	2.4						
Net Disposal of Non-financial Assets							3,572.5	2,695.6	2,445.6	-31.5	-
Disposal of Financial Assets	2,960.0	3,191.8	3,191.8	7.8	12.5	Acquisition of Financial Assets	1,984.9	2,833.0	2,833.0	42.7	11.1
Sales of Islamic Debt Securities	1,870.0	2,546.0	2,546.0	36.1	9.9	Related to Disposal of Stocks	37.8	-	-	-	-
Receiving Loan Principals	18.5	14.8	14.8	-20.3	0.1	Repayment of Islamic Debt Securities Principals	1,712.2	2,200.0	2,200.0	28.5	8.6
Disposal of State-owned Companies	1,060.0	600.0	600.0	-43.4	2.3	Repayment of Bank Loans Principals	13.2	-	-	-	-
Last Year Payments Return	11.5	31.0	31.0	169.9	0.1	Unpaid Obligations from Previous Years	40.1	-	-	-	-
						Repayment of Foreign Loans Principals	181.6	-	-	-	-
Net Disposal of Financial Assets							975.1	358.8	358.8	-63.2	-
General Sources	20,823.3	24,620.4	25,620.4	23.0	100.0	General uses	20,823.3	24,620.4	25,620.4	23.0	100.0

Source: Budget Laws of 1402 and 1403 and Budget Bill of 1403

In 1403 Bill, the Tax Revenues accounted for 51.4 percent of the General Sources, 9.7 and 8.4 percentage points above those in the 1402 Bill and Law, respectively. Moreover, the Tax Revenues proposed in 1403 Bill stood 41.4 percent above the legislated figure in 1402 Law. All in all, in 1403 Bill, IRR12,645.0 trillion was proposed for Tax Revenues, of which 48.4 percent was attributed to Indirect Tax (tax on goods and services and imports) and 51.6 percent to Direct Tax (on corporations, income and wealth). Among the components of the Direct Tax in 1403 Bill, the proposed figure for Corporate Tax accounted for 35.6 percent of the Tax Revenues in total and stood 53.3 percent above its corresponding figure in 1402 Law. Among the components

of Corporate Tax in 1403 Bill, Tax on Non-public Legal Entities accounted for 79.0 percent of the Corporate Tax and grew by 39.3 percent compared to that in 1402 Law. In 1403 Bill, the Tax on State-owned Companies grew by 9.9 percent compared to the legislated figure for that source in 1402 Law. Among the components of Corporate Tax, another source of IRR500.0 trillion has been considered associated with the businesses in the free zones that their 20-year tax exemption is over. The Income Tax that accounted for 12.0 percent of the Tax Revenues in 1403 Bill, grew by 33.3 percent compared to the corresponding figure in 1402 Law. Among the components of the Income Tax, Tax on Professions accounted for 40.3 percent of that

source of Budget and grew by 49.8 percent compared to its corresponding figure in 1402 Law. The Tax on Salary of Private Sector and Public Sector Employees, respectively, proposed up 20.0 percent and 19.9 percent from those in 1402 Law and formed 21.8 percent and 27.9 percent of the Total Income Tax in 1403 Bill. In 1403 Bill, Wealth Tax - as a major component of the Tax Revenues - was increased by 32.9 percent and the Tax on Share Transfers - as a subsidiary of Wealth Tax - by 68.7 percent compared to 1402 Law, conveying that the Government had expected the capital market to be bullish in 1403. Regarding Indirect Tax, the proposed figure for Tax on Goods and Services in 1403 Bill stood 54.5 percent above the legislated figure in 1402 Law and constituted 37.1 percent of the proposed Tax Revenues. The Value-added Tax accounted for 57.4 percent of the Tax on Goods and Services in 1403 Bill and grew by 43.0 percent compared to the approved figure of 1402 Law. Note that the one-percentage point rise in value-added tax rate (from 9 to 10 percent) has not been included in its corresponding source in 1403 Bill and has been separately estimated IRR500.0 trillion. Including this source in the revenues from Value-added Tax, this source of Budget rises to IRR3,195.0 trillion to stand 69.5 percent above its corresponding legislated figure in 1402 Law. In addition, this source would account for 68.0 percent of Tax on Goods and Services and 25.3 percent of the Tax Revenues in Total in 1403 Bill. In 1403 Bill, IRR196 trillion was proposed for Tax on Sales of Automotive to form 4.2 percent of the Tax on Goods and Services to stand 50 percent above the legislated IRR131 trillion in 1402 Law. The Tax on Imports (customs duty) accounted for 11.3 percent of the Tax Revenues in 1403 Bill and was decreased by 2.1 percent compared to the legislated figure of 1402 Law. In the same regard, the Tax on Imports of other goods (with 75.2 percent share in total tax on imports in 1403 Bill), grew by 17.5 percent compared to the legislated figure in 1402 Law. The Tax on Automotive Imports in 1403 Bill, nevertheless, fell by 16.6 percent compared to the approved figure in 1402 Law.

In 1403 Bill, the Current Expenditures constituted 73.3 percent of the General Uses and 19.5 percent above the corresponding figure in 1402 Law. On the basis of the IRI Parliament Research Center, in 1403 Bill the Compensation of Employees formed 62.1 percent of the Current Expenditures at IRR11,210.0 trillion. In 1403 Bill, IRR3,850.0 trillion was proposed for Pension Funds, accounting for 21.3 percent of the Current Expenditures. All in all, these 2 elements aggregated to IRR15,060.0 trillion, constituting 83.5 percent of the Current Expenditures in 1403 Bill. Hence, the Operating Balance Deficit in 1403 Bill reached IRR3,054.2 trillion, indicating that a considerable portion of Current Expenditures are financed via sources other than General Revenues.

Furthermore, in 1403 Bill the Proceeds from Exports of Oil and Natural Gas Condensates and Net Exports of Natural Gas were 6.6 percent below the corresponding figures in 1402 Law. It was decided that up to USD15 billion of this sort of revenues be converted to Rials at the USD/IRR exchange rate of 285 thousand to be allocated for imports of essential goods. As for the excessive oil revenues, the USD/IRR exchange of 396 thousand seems to be used for conversion. In addition, the Proceeds from Sales of Feedstock to the Domestic Petrochemical Producers that were excluded from Oil Revenues in General Sources in the Budget Laws of 1399 and 1400, were again included in that source in 1401 and 1402 Bills and Laws, but implicitly. This maintained in 1403 Bill, i.e., assuming sales of 67 thousand barrels per day at USD67.5 (95 percent FOB), the Proceeds from Sales of Feedstock to Domestic Petrochemical Producers was estimated USD3.8 billion, equaling to IRR653.2 trillion should the USD/IRR exchange rate for conversion rate be 396 thousand. Hence, the 85.5 percent share of Government in those Proceeds equaled IRR558.5 trillion. The assumptions used for calculation of Oil Revenues in USD and IRR are presented in Table 13.

Table 13. Proceeds from Oil, Gas Condensates and Natural Gas

Assumptions	1401 Law	1402 Law	1403 Bill	1403 Law	1403 Law to 1403 Bill Percentage Change	1403 Law to 1402 Law Percentage Change	1403 Bill to 1402 Law Percentage Change
Oil and Gas Condensates Exports (1000 barrels a day)	1,400.0	1,282.0	1,350.0	1,350.0	0.0	5.3	5.3
Sales of Feedstock to Domestic Petrochemical Companies (1000 barrels a day)	145.0	145.0	67.0	67.0	0.0	-53.8	-53.8
Oil Price per Barrel (USD)	70.0	75.0	71.0	71.0	0.0	-5.3	-5.3
Price of Gas Condensates per Barrel to Be Sold to Domestic Petrochemical Companies (USD)	66.5	71.3	67.5	67.5	0.	-5.3	-5.3
Share of National Iranian Oil Company (NIOC) in Exports of Oil and Gas Condensates (percent)	14.5	14.5	14.5	14.5	0.0	0.0	0.0
Share of National Iranian Gas Company (NIGC) in Net Exports of Natural Gas (percent)	14.5	14.5	14.5	14.5	0.0	0.0	0.0
Share of NDF in Exports of Oil and Gas Condensates and Net Natural Gas Exports (percent)	40.0	42.0	40.0	45.0	12.5	7.1	-4.8
Government Share in Exports of Oil and Gas Condensates (percent)	45.5	43.5	45.5	40.5	-11.0	-6.9	4.6
Government Share in Sales of Feedstock to Domestic Petrochemical Companies (percent)	85.5	85.5	85.5	85.5	0.0	0.0	0.0
Government Share in Net Exports of Natural Gas (percent)	45.5	43.5	45.5	40.5	-11.0	-6.9	4.6
Share of NIOC in Sales of Gas Condensates to Domestic Petrochemical Companies (percent)	14.5	14.5	14.5	14.5	0.0	0.0	0.0
Average USD/IRR Exchange Rate for Imports of Essential Goods (IRR1000 per USD)	230.0	285.0	285.0	285.0	0.0	0.0	0.0
Average USD/IRR Exchange Rate for Other Uses (IRR1000 per USD)	230.0	285.0	396.0	396.0	0.0	38.9	38.9
Net Exports of Natural Gas (USD billion)	3.6	6.2	3.5	3.5	0.0	-43.5	-43.5
Total Revenues from Exports of Crude Oil and Gas Condensates (USD billion)	35.8	35.1	35.0	35.0	0.0	-0.3	-0.3
Total Revenues from Sales of Feedstock to Domestic Petrochemical Companies (USD billion)	3.5	3.8	1.6	1.6	0.0	-56.3	-56.3
Share of NDF in Total Revenues in Foreign Currencies (USD billion)	15.7	17.3	15.4	17.3	12.5	-0.1	-11.2
Share of NIOC in Oil Exports and Domestic Sales of Feedstock (USD billion)	5.7	5.6	5.3	5.3	0.0	-5.7	-5.7
Share of NIGC in Natural Gas Net Exports (USD billion)	0.5	0.9	0.5	0.5	0.0	-43.5	-43.5
Government Share in Total Proceeds of Oil Exports (USD billion)	16.3	15.3	15.9	14.2	-11.0	-7.2	4.3
Government Share in Total Proceeds of Net Exports of Natural Gas (USD billion)	1.6	2.7	1.6	1.4	-11.0	-47.4	-40.9
Government Share in Sales of Feedstock to Domestic Petrochemical Companies (USD billion)	3.0	3.2	1.4	1.4	0.0	-56.3	-56.3
Proceeds from Exports of Crude Oil and Gas Condensates (Government share-IRR trillion)	3,743.3	4,350.9	4,638.6	4,038.2	-12.9	-7.2	6.6
Proceeds from Net Exports of Natural Gas (Government share-IRR trillion)	374.6	768.4	630.6	469.7	-25.5	-38.9	-17.9
Proceeds from Sales of Gas Condensates to Domestic Petrochemical Companies (Government share-IRR trillion)	692.1	918.9	558.5	558.8	0.0	-39.2	-39.2
Proceeds from Sales of Vacuum Bottom (Bitumen-IRR trillion)	0.0	200.0	0.0	0.0	-	-	-100.0
Total Government Oil Revenues (IRR trillion)	4,810.1	6,238.1	5,827.4	5,066.3	-13.1	-18.8	-6.6

Source: Budget Laws of 1401, 1402, and 1403; Budget Bill of 1403; Research Center of the IRI Parliament

In 1403 Bill, the proposed share of National Development Fund (NDF) was 40 percent of the Petrodollars. Given the assumptions, the NDF share equals USD15.4 billion in 1403 Bill, down 11.2 percent from that in 1402 Law.

The share of Government in Oil Revenues (exports of oil, gas condensates, net exports of natural gas as well as 85.5 percent share in sales of feedstock to domestic petrochemical producers) was proposed IRR5,827.4 trillion, accounting for 23.7 percent of the Government General Sources of 1403 Bill and 6.6 percent below that in 1402 Law. Deducting the IRR200 trillion from the sales of bitumen in 1402 Budget

Law, the 6.6 percent fall in 1403 oil revenues declines to 3.5 percent.¹ Furthermore, in 1403 Bill and as for the Disposal of Non-financial Assets, due to the fall in Oil Revenues and in order to finance the Uses of Budget, IRR618.2 trillion was proposed for the sales of Government Properties, 43.0 percent below the legislated figure of 1402 Law. However, from the weak realization ratio of this source relative to the legislated figures of the Budget Laws in recent years, it is grasped that the proposed figure in 1403 Bill in that regard is overestimated. All in all, the Disposal of Non-financial Assets in 1403 Bill, respectively, fell by 12.0 percent and 9.4 percent Compared to the 1402 Law and Bill to register IRR6,445.6

1. The proceeds from sales of bitumen were included in oil revenues in 1402 Law, while in 1403 Bill, that source is considered off-budget.

trillion and equivalent to 26.2 percent of the Government General Sources.

The Acquisition of Non-financial Assets proposed in 1403 Bill remained the same as the corresponding figure in 1402 Law at IRR3,750.0 trillion, constituting 15.2 percent of the General Uses in 1403 Bill. Hence, the Net Disposal of Non-financial Assets registered IRR2,695.6 trillion in 1403 Bill, i.e., part of the Current Expenditures were planned to be financed via Net Disposal of Non-financial Assets.

In 1403 Bill and in line with the budgeting system of Iran, part of the budget deficit was planned to be financed through Disposal of Financial Assets. Accordingly, issuance of IRR2,546.0 trillion of Government Debt Securities was considered in 1403 Bill, up 36.1 percent from the legislated figure of 1402 Law. The Issuance of Government Debt Securities accounted for 79.8 percent of the Disposal of Financial Assets and 10.3 percent of General Sources in 1403 Bill, up 16.6 and 1.4 percentage points from the corresponding figures in 1402 Law, respectively. In 1403 Bill, IRR600.0 trillion was proposed for the Disposal of State-owned Companies, indicating 43.4 percent fall compared to the corresponding figure in the 1402 Law. All in all, the IRR3,191.8 trillion of Disposal of Financial Assets in 1403 indicated 7.8 percent rise compared to 1402 Law and constituted 13.0 percent of the Government General Sources, down 1.2 percentage points from its share in 1402 Law.

The Acquisition of Financial Assets in 1403 Bill rose by 42.7 percent compared to that in 1402 Law, registering IRR2,833.0 trillion. This rise rooted in the Principal Repayment of Matured Securities in the aftermath of the increase in issuance of Government Debt Securities since 1399. The Principal Repayment in 1403 Bill amounted to IRR2,200 trillion, equivalent to 77.0 percent of the Acquisition of Financial Assets. Hence, the Net Disposal of Financial Assets in 1403 Bill was estimated IRR358.8 trillion.

The first section of 1403 Bill was delivered to the IRI Parliament in the late fall 1402 and was eventually passed by that authority and got the confirmation of the Guardian Council as the First section of 1403 Law on the last working day of 1402 and the second section including details became Law in the last month of spring 1403. The Sources and Uses of 1403 Law fell slightly by 0.3 percent compared to the corresponding proposed figures in 1403 Bill. This fall mainly roots in elimination of the double-counted figures at IRR1,200 trillion in 1403 Law. However, the proposed IRR24,620.4 trillion for

General Sources and Uses of Government was increased by 4.1 percent to IRR25,620.4 trillion in 1403 Law. The General Revenues rose by 6.7 percent in 1403 Law to IRR15,983.1 trillion compared to proposed figure in the Bill, mainly due to the IRR1,000.0 trillion (7.9 percent) rise in the Tax Revenues. Among the components of Direct Tax, the Corporate Tax that constituted 34.4 percent of the Tax Revenues expanded by 4.0 percent in 1403 Law compared to the proposed figure of 1403 Bill. Moreover, the Tax on Non-public Legal Entities grew by 4.8 percent in 1403 Law compared to 1403 Bill to IRR3,730.4 trillion. The Income Tax with 13.9 percent share in the Tax Revenues in 1403 Law stands 24.8 percent above the proposed figure in 1403 Bill in that regard. Among the major components of the Income Tax, the Tax on Professions and Tax on Salary of the Private Sector Employees, respectively, grew by 30.1 percent and 42.2 percent compared to 1403 Bill. The legislated figure of the Wealth Tax was 19.0 percent below the proposed figure in 1403 Bill, accounting for 2.9 percent of the Tax Revenues in 1403 Law. As for the components of the Indirect Taxes, in 1403 Law, the Tax on Goods and Services accounted for 38.4 percent of the Tax Revenues to stand 11.4 percent above the proposed figure of 1403 Bill. Moreover, the Tax on Imports (customs duty) that accounted for 10.4 percent of the Tax Revenues in 1403 Law, remained the same as its proposed figure in 1403 Bill. As for the Uses of Budget, the approved figure for the Current Expenditures in 1403 Law stood IRR750.0 trillion (4.2 percent) above the proposed figure of the Bill at IRR18,787.4 trillion, constituting 73.3 percent of the General Uses of 1403 Law. Hence, the Operating Balance Deficit in 1403 Bill at IRR3,054.4 trillion was decreased by 8.2 percent to IRR2,804.3 trillion in 1403 Law.

Among the components of the Disposal of Non-financial Assets, the share of NDF in Petrodollars in 1403 Law was increased by 5 percentage points to 45 percent compared to the 40 percent share in 1403 Bill, however the estimated Oil Revenues did not change. Accordingly, given the assumptions in the Law and Bill of 1403, the NDF share in Petrodollars in 1403 was supposed to rise to USD17.3 billion, USD1.9 billion above the proposed figure of the Bill. Hence, the estimated oil revenues in 1403 Law faces IRR761 trillion deficit in this regard. In order to cover that deficit, either the USD value of oil and gas condensates exports or the USD/IRR exchange rate for their conversion should be increased. It seems that the USD/IRR exchange rate of 285 thousand had been used for conversion of foreign proceeds up to USD15 billion for imports of essential goods and for amounts in excess of USD15 billion, the conversion rate of 396 thousand

had been used in 1403 Bill. In order to offset the deficit from the rise in NDF share in 1403 Budget Law compared to the Bill, the rate of 396 thousand is supposed to be increased to 770 thousand. Meanwhile, the Acquisition of Non-financial Assets in 1403 Law was approved at IRR4,000 trillion, up 6.7 percent from the IRR3,750 trillion in 1403 Bill. Hence, the Net Disposal of Non-financial Assets in 1403 Law registered IRR2,445.6 trillion and 9.3 percent below that of 1403 Bill.

All in all, the Net Disposal of Financial Assets in 1403 Law remained the same as the proposed figure of 1403 Bill at IRR358.8 trillion. Disposal as well as Acquisition of Financial Assets in 1403 Law, respectively accounted for 12.5 percent and 11.0 percent of the General Source and Uses and both fell by 0.5 percentage point compared to the Bill.

3-2. Government Fiscal Performance

While preparing this Annual Report, only the data on Tax Revenues and Issuance of Government Debt Securities were officially issued and the data on the realization of Government Budget figures in 1403 were obtained from Supreme Audit Court of Iran and unofficial sources. Accordingly, in 1403, the actual Government General Sources and Uses, respectively, registered IRR30,800.0 trillion and IRR31,200.0 trillion with realization ratios of 120.2 percent and 121.7 percent. This 1.5 percentage points gap between the 2 realization rates translates to IRR400.0 trillion Overall Budget Deficit that has been financed through the revolving funds with the CBI. Note that in the report of the Supreme Audit Court of Iran, another IRR4,740.0 trillion was included in the General Sources and Uses - in the form of offsetting of assets and liabilities - which causes the corresponding figures in the report of this authority to rise to IRR35,560 trillion and IRR35,960 trillion, respectively. However, in this section the added figure of IRR4,740.0 trillion is excluded in our analyses. On the basis of the report of the same authority, in 1403, the Subsidies Reform Plan faced IRR2,645 trillion deficit that was financed through the sources of General Budget.

The General Revenues of Government (tax revenues and other) in 1403 reached IRR15,838.8 trillion, accounting for 99.1 percent of the legislated figure in the Law. In order to estimate the Imports Tax and other General Revenues of the Government for the year 1403 as a whole, the 11-month realization ratios of these sources of Budget from the report of the Supreme Audit Court of Iran have been used. The actual Government General Expenditures on the other had reached IRR23,356.9 trillion in the same period (124.3 percent of the legislated) and caused the

Operating Balance Deficit to register IRR7,518.1 trillion, which reaches IRR10,163.1 trillion by including the Subsidies Reform Plan deficit. It is noteworthy that in this Annual Report, the Government Current Expenditures is derived from the deduction of estimated Acquisition of financial and non-financial assets from the figure of the Total General Uses reported by Supreme Audit Court of Iran.

The disposal of Non-financial Assets realized 55.9 percent of its approved figure in 1403 Law to reach 3,601.1 trillion in 1403. In the same period, 61.4 percent of the oil revenues at IRR3,594.9 trillion was realized. As for the Sales of Government Properties in the first 11 months of 1403, only 1.0 percent of the legislated figure has been realized, translating to Government failure in that regard. It is estimated that in 1403 as a whole, 59.6 percent of the legislated Acquisition of Non-financial Assets (development expenditures) was materialized at IRR2,385.8 trillion. Subsequently, the Net Disposal of Non-financial Assets in 1403 is supposed to have a surplus of IRR1,215.3 trillion which covers part of the Operating Balance Deficit. Due to lack of annual data on the Disposal and Acquisition of Non-financial Assets, their 11-month realization ratios have been the base of the estimated annual analyses in that regard.

The Net Disposal of Financial Assets has played a key role in financing Operating Balance Deficit in 1403 like its preceding years with 355.9 percent realization of legislated figure in Budget Law at IRR11,360.1 trillion. On the basis of the CBI data on the weekly auctions of Government Debt Securities (Murabaha) and given the IRR450.0 trillion

Treasury Bonds issued for offsetting of government debt to its creditors (AKHZA), it is estimated that the actual financing of budget deficit via Issuance of Government Debt Securities in 1403 account for 188.2 percent of the legislated figure in 1403 Law at IRR4,792 trillion, constituting 42.2 percent of Disposal of Financial Assets and 15.6 percent of the General Sources in Total. Since the Government Treasury Bonds are zero-coupon², an average 30 percent discount rate has been used for calculation of finance through this method. Besides, according to the Privatization Organization, the actual Disposal of State-owned companies in 1403 covered 54.9 percent of its approved Budget figure at IRR329.7 trillion. Note that in the year 1403, IRR449.8 trillion of the disposals has taken place through Debt Settlement to Government Creditors which are not included in calculations. In addition, despite the ban on withdrawal from NDF share in the Petrodollars in 1403 Law, the report of the Supreme Audit Court suggests that in 1403, IRR4,266 trillion of NDF funds has been withdrawn by the Government that included in Disposal of Financial Assets, constituting around 13.9 percent of the General Sources of Government in 1403 as a whole. Precisely speaking, in addition to the IRR140 trillion borrowing from the NDF in 1403 based on the permit of its preceding year, the Government enjoyed from another 20 percentage points share of the NDF in the petrodollars following the consent of the IRI Supreme Leader. Moreover, IRR450 trillion of the resources resulting from this new permit were transferred to the 1404 budget to cover General Uses for the following year that is not reflected in sources of 1403 budget performance, according to the Supreme Audit Court of Iran report.

The General Sources of the Government Budget totals IRR28,827.8 trillion by considering the tax revenues reported by Iranian National Tax Administration (INTA), estimated oil revenues, CBI data on sales of Government Debt Securities, data on Disposal of State-owned Companies released by the Privatization Organization and finally withdrawal from the NDF based on the news from the Supreme Audit Court of Iran. However, the aggregated figure of IRR28,827.8 trillion is different from the corresponding figure in the report of the Supreme Audit court by IRR1,972 trillion. This difference, has been included as a component of the Disposal of Financial Assets - in subgroup of Other - in this Annual Report to make various reports on the performance of Government Budget comparable.

Moreover, the Acquisition of Financial Assets in 1403 reached IRR2,812 trillion, accounting for 99.3 percent of the legislated figure in 1403 Law. Out of this IRR2,812 trillion, 79.0 percent was spent for principal repayment of the matured Government Debt Securities on the basis of the Ministry of Economic Affairs and Finance. Note that due to lack of data, the actual figures for other components of the Acquisition of Financial Assets in 1403 as a whole, have been estimated based on their 11-month realization ratios in the Supreme Audit Court report. Accordingly, IRR8,547.8 trillion is estimated for the Net Disposal of Financial Assets in 1403, accounting for 27.8 percent of the actual General Sources of Budget in 1403. The estimated Fiscal Performance of the Government is shown in Table 14.

2. A zero-coupon bond is an investment in debt that does not pay interest but instead trades at a deep discount.

Table 14. Estimated Government Fiscal Performance in 1403 (IRR trillion-percent)

	1403 Bill	1403 Law	11-Month Realized in 1403	Estimated Realized in 1403	Realization Ratio in 1403	Share in Actual General Sources and Uses in 1403
Sources	24,620.4	25,620.4	23,640.0	30,800.0	120.2	100.0
General Revenues	14,983.0	15,983.0	14,137.2	15,838.8	99.1	51.4
Tax Revenues	12,645.0	13,645.0	12,056.0	13,568.4	99.4	44.1
Corporate Tax	4,507.5	4,687.5	4,796.8	5,434.6	115.9	17.6
Income Tax	1,519.5	1,897.1	1,995.0	2,259.7	119.1	7.3
Wealth Tax	495.7	400.8	267.0	311.1	77.6	1.0
Goods and Services Tax	4,697.4	5,234.6	3,826.4	4,285.9	81.9	13.9
Imports Tax	1,425.0	1,425.0	1,170.8	1,277.2	89.6	4.1
Other Revenues	2,338.0	2,338.0	2,081.2	2,270.4	97.1	7.4
Disposal of Non-financial Assets	6,445.6	6,445.6	3,301.1	3,601.1	55.9	11.7
Receipts from Crude Oil and Oil Products	5,827.4	5,827.4	3,295.3	3,594.9	61.7	11.7
Disposal of Properties	618.2	618.2	5.7	6.2	1.0	0.0
Disposal of Financial Assets	3,191.8	3,191.8	6,201.8	11,360.1	355.9	36.9
Sales of Islamic Debt Securities	2,546.0	2,546.0	3,387.4	4,792.2	188.2	15.6
Disposal of State-owned Companies	600.0	600.0	172.5	329.7	54.9	1.1
Use of National Development Fund	0.0	0.0	2,600.0	4,266.0	-	13.9
Other	45.8	45.8	42.0	1,972.2	-	6.4
Uses	24,620.4	25,620.4	24,300.0	31,200.0	121.8	100.0
Current Expenditures	18,037.4	18,787.4	19,604.4	23,356.9	124.3	74.9
Acquisition of Non-financial Assets	3,750.0	4,000.0	2,187.0	2,385.8	59.6	7.6
Acquisition of Financial Assets	2,833.0	2,833.0	2,508.6	2,812.3	99.3	9.0
Subsidies Reform Plan Deficit	0.0	0.0	2,690.0	2,645.0	-	8.5
Overall Budget Deficit	0.0	0.0	-660.0	-400.0	-	-
Revolving Fund with the CBI	0.0	0.0	660.0	400.0	-	-
Operating Balance	-3,054.4	-2,804.4	-5,467.2	-7,518.1	-	-
Net Disposal of Non-financial Assets	2,695.6	2,445.6	1,114.0	1,215.3	-	-
Net Disposal of Financial Assets	358.8	358.8	3,693.2	8,547.8	-	-
Operating Balance (Subsidies Reform Plan Deficit included)	-3,054.4	-2,804.4	-8,157.2	-10,163.1	-	-

Source: Budget Law and Budget Bill of 1403; Supreme Audit Court of Iran; Ministry of Economic Affairs and Finance; Iranian National Tax Administration; IRI Parliament Research Center; Central Bank of Iran

The data issued by INTA as well as some unofficial sources suggest that 99.4 percent of the approved figure for tax revenues has been realized in 1403, with Direct Taxes with 114.6 percent realization ratio. As for the components of the Direct Taxes, Income Tax outperformed the other components by 119.1 percent realization ratio. The actual Tax on Salary of Private Sector Employees constituted 40.8 percent of the Income Tax and enjoyed the highest realization ratio of 152.8 percent among other subgroups of Income Tax in 1403. The actual Tax on Salary of the Public Sector Employees with 19.5 percent share in total Income Tax registered IRR441.2 trillion in 1403, up 27.3 percent from that of 1402 and overshooting 16.7 percent of its approved figure in 1403 Law. The actual Tax on Professions grew by 50.7 percent from 1402 to constitute 34.4 percent of the total Income Tax in 1403 and account for 97.6 percent of its legislated figure in 1403 Law.

In 1403, the actual Corporate Tax registered IRR5,434.6

trillion, overshooting its approved figure in 1403 Law by 15.9 percent. Out of this actual figure, 81.0 percent at IRR4,403.6 trillion is attributed to the Non-public Legal Entities. In addition, in the same year, 338.8 percent of the approved Tax on Performance of State-owned Companies was realized and this component constituted 11.5 percent of the actual Corporate Tax with the highest realization ratio. As for other subgroups of the Direct Tax, the Wealth Tax experienced the lowest realization ratio of 77.6 percent and among its components, the actual Tax on Transfer of Shares reached IRR75.6 trillion with 52.4 percent realization ratio. The Tax on Vacant Houses experienced the weakest realization ratio of 0.1 percent as a component of Wealth Tax.

In 1403, 83.5 percent of the legislated figure for Indirect Taxes was realized at IRR5,563.0 trillion, indicating 25.2 percent rise compared to 1402. Out of the actual Indirect Taxes, 77.0 percent belonged to Tax on Goods and

Services and 23.0 percent to Tax on Imports. The actual Tax on Goods and Services realized 81.9 percent of its approved figure in 1403 Law to register IRR4,285.9 trillion, up 32.6 percent from that of 1402 and constituting 31.6 percent of Tax Revenues in Total. In addition, the actual Value-added Tax that accounted for 61.1 percent of actual

Tax on Goods and Services in 1403, realized 69.8 percent of the corresponding legislated figure. Besides, the actual Tax on Imports grew by 5.6 percent compared to 1402 and with realization ratio of 89.6 percent, formed 9.4 percent of the actual Tax Revenues in Total. Table 15 presents the Government Performance in Tax Revenues in 1403.

Table 15. Performance of Tax Revenues (IRR trillion-percent)

	Realized in 1402	1403 Law	Realized in 1403	1403 to 1402 Change in Realization	1403 Realization Ratio	Share of Components in Realized Tax Revenues in 1403
Tax Revenues	9,317.8	13,645.0	13,568.4	45.6	99.4	100.0
Direct Tax	4,874.8	6,985.4	8,005.4	64.2	114.6	59.0
Corporate Tax	3,164.4	4,687.5	5,434.6	71.7	115.9	40.1
Income Tax	1,424.1	1,897.1	2,259.7	58.7	119.1	16.7
Wealth Tax	286.3	400.8	311.1	8.7	77.6	2.3
Indirect Tax	4,443.0	6,659.6	5,563.0	25.2	83.5	41.0
On Goods and Services	3,233.0	5,234.6	4,285.9	32.6	81.9	31.6
On Imports	1,210.0	1,425.0	1,277.2	5.6	89.6	9.4

Source: 1402 and 1403 Budget Laws; Iranian National Tax Administration; Islamic Republic News Agency (IRNA)

The Issuance of Government Debt Securities in 1403 Law was legislated IRR2,546.0, up 61.3 percent from the corresponding figure of 1402. In the year 1403, the CBI in cooperation with the Ministry of Economic Affairs and Finance started to hold the weekly auctions of Government Debt Securities in Money Market and Capital Market from mid-spring and till the end of the 7th month of the year, the all IRR2,540.6 trillion Government Debt Securities (approved for the whole year) were issued. Hence, the Government request for Issuance of another IRR2,700 trillion Debt Securities was consented.

The CBI data on the auctions of the Debt Securities reveals that 38 rounds of auctions have been held in 1403 with IRR4,746.0 trillion Murabaha Securities issued and the accumulated supply of IRR10,321.4 trillion. Out of the supplied Securities, IRR2,139.1 trillion was demanded by banks and non-bank credit institutions and IRR2,057.1 of that demand was approved by the Ministry of Economic Affairs and Finance. During 1403, IRR2,442.6 trillion of auctioned Government Debt Securities were sold in the Capital Market. Accordingly, in 1403 the traded Government Debt Securities through auctions reached

IRR4,499.7 trillion to stand 190.1 percent above the IRR1,551.1 trillion in 1402. Note that IRR246.3 trillion (5.2 percent) of the total figure for Issuance of Debt Securities is considered price discount as interest payment. Given the IRR246.3 trillion price discount, in fact the Government has raised IRR4,499.7 trillion from the IRR4,746.0 trillion Securities issued.

On the basis of the Ministry of Economic Affairs and Finance, IRR3,191.0 trillion of Government Debt Securities has been purchased by banks and non-bank credit institutions in 1403 that is totally distinct from the reported figure of the CBI. A comparison between the reported figures of the aforementioned authorities reveals that the banks and non-bank credit institutions have purchased IRR1,133.9 trillion in the Capital Market, not directly through the auctions in the Money Market. Hence, the share of banks and non-bank credit institutions in purchase of Government Debt Securities registered 70.9 percent in 1403. Table 16 illustrates the details of the auctions of Government Debt Securities held by the CBI during 1402 and 1403.

Table 16. Government Debt Securities Auctions Held by the CBI (IRR trillion-percent)

Month	1402					1403					Growth Rate of Traded in Money Market	Growth Rate of Traded in Capital Market	Growth Rate of Total Traded
	Supply	Demand by Banks	Traded in Money Market	Traded in Capital Market	Total Traded	Supply	Demand by Banks	Traded in Money Market	Traded in Capital Market	Total Traded			
02	0.0	0.0	0.0	0.0	0.0	1,048.6	11.9	10.9	10.0	20.9	-	-	-
03	0.0	0.0	0.0	0.0	0.0	1,655.2	348.1	348.1	75.4	423.5	-	-	-
04	0.0	0.0	0.0	0.0	0.0	792.9	9.8	9.8	261.9	271.7	-	-	-
05	874.2	256.5	148.4	58.5	206.9	1,017.3	324.0	324.0	128.8	452.8	118.3	120.2	118.8
06	628.9	0.0	0.0	164.3	164.3	807.4	70.9	70.9	231.6	302.5	-	41.0	84.1
07	753.6	9.0	9.0	51.3	60.3	1,172.5	48.8	22.7	486.1	508.7	151.4	847.9	743.8
08	816.4	1.0	1.0	287.0	287.9	862.4	382.8	382.8	0.0	382.8	39,362.9	-100.0	32.9
09	578.3	19.1	0.0	126.4	126.4	295.9	110.6	110.6	172.9	283.5	-	36.8	124.3
10	519.7	35.7	34.5	151.8	186.3	250.0	48.0	48.0	192.1	240.1	39.1	26.5	28.9
11	454.0	0.0	0.0	65.9	65.9	815.6	255.7	243.7	257.2	500.9	-	290.3	660.0
12	1,058.1	91.6	148.5	304.6	453.1	1,593.6	528.7	485.7	626.6	1,112.3	227.1	105.7	145.5
Total	5,683.1	412.8	341.4	1,209.8	1,551.1	10,321.4	2,139.1	2,057.1	2,442.6	4,499.7	502.6	101.9	190.1

Source: Central Bank of Iran

In addition to the auctions, the Government also issues debt securities through two other distinct methods: First, selling Murabaha Debt Securities in the capital market via an underwriter, and second, providing government creditors with Islamic Treasury Bonds in exchange of its debts. In 1403, IRR450.0 trillion Islamic Treasury Bonds were disposed through the second method, but not disposal took place via the first method contrary to selling IRR60.0 trillion Murabaha Debt Securities via underwriting in 1402. Accordingly, the Issuance of Government Debt Securities registered IRR5,196.0 trillion in total in 1403, indicating 51.8 percent rise from its preceding year.

From mid-summer of 1400 onwards, the data on the debt market transactions (sum of the primary and the secondary markets) by its market players (Government, CBI, banks, Investment Funds, etc.) has been issued by the Over the Counter (OTC). Accordingly, from mid-summer

1400 to the end of 1403, the net accumulated purchase of Government Debt Securities by the CBI and the Investment Funds registered IRR3,855.4 trillion and IRR4,329.8 trillion, respectively. Note that as the CBI is prohibited from purchase of such securities in the primary market (IPO), the net purchase of this authority is attributed to the secondary market only. The banks that were mainly suppliers of the Government Debt Securities from mid-summer 1400 to the end of that year (negative net accumulated purchase of IRR556.3 trillion in the primary and secondary markets), shifted to the demand side from that point onwards. The net purchase of Government Debt Securities by banks reached IRR802.9 trillion through primary and secondary markets during 1403. The net accumulated purchase of government debt securities by the banks from mid-summer 1400 to the end of 1403 registered about IRR1,699.4 trillion.

3-3. Privatization

The Iranian Privatization Organization started the Disposal of State-owned Companies from 1380, and till the end of 1403, out of the total Privatization, 50.8 percent took place through Tehran Stock Exchange (TSE), 5.7 percent through Over the Counter (OTC), 43.4 percent through auctions, and 0.1 percent through negotiations. Also, 54.3 percent of the disposals materialized in terms of settlement of government debt to its creditors, indicating that this part

of the Privatization has not taken place through market mechanisms. In this period, the "Justice" shares accounted for 3.2 percent of the total Privatization. Table 17 presents the performance of the Iranian Privatization Organization by type of disposals from 1380 to 1403 at current prices. The inappropriate way of direct transfer for debt settlements that had been terminated from 1396 to 1398 - no company was disposed through this way in that period - was again

revived from 1399 to 1403 and accounted for 61.5 percent, 100.0 percent, 50.9 percent, 99.2 percent and 40.7 percent

of the total Privatization in the years 1399, 1400, 1401, 1402 and 1403, respectively.

Table 17. Performance of the Iranian Privatization Organization by Various Types (at current prices-IRR trillion)

	1380-1393	1394	1395	1396	1397	1398	1399	1400	1401	1402	1403
Sales of Shares or Assets to the Public	757.9	26.2	29.9	10.7	3.7	32.2	471.8	0.0	1,426.3	5.2	831.7
Settlement of Debts (direct transfer)	307.2	1.2	19.0	0.0	0.0	0.0	753.6	823.9	1,480.5	629.9	569.7
Justice Shares (direct transfer)	266.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Sales Value	1,331.4	27.3	48.9	10.7	3.7	32.2	1,225.3	823.9	2,906.8	635.1	1,401.4
Percent of Total Disposals	15.8	0.3	0.6	0.1	0.0	0.4	14.5	9.8	34.4	7.5	16.6

Source: Iranian Privatization Organization

No data on realization of disposal of shares and disposable assets at constant 1395 prices were issued in 1403, however, it could be estimated that 2.2 percent of total disposals has taken place in 1403 at constant prices. Moreover, from the beginning of disposals to the end of 1403, about 49.8 percent of the disposals was to the Public, 29.7 percent was carried out for Settlement of Debt to Creditors, and 20.5 percent

was by Justice shares, at constant prices. Table 18 exhibits the performance of the Iranian Privatization Organization by various disposal types from 1380 to 1403 at constant 1395 prices, based on the SCI's consumer price index. Although, considering the consumer price index per se is not the best option for calculating the performance of Privatization at constant prices, it is the only available option.

Table 18. Privatization by Disposal Type (at constant 1395 prices-IRR trillion)

	1380-1393	1394	1395	1396	1397	1398	1399	1400	1401	1402	1403
Sales of Shares or Assets to the Public	1,919.1	28.5	29.9	9.8	2.6	15.9	157.8	0.0	222.8	0.5	62.8
Settlement of Debt (direct transfer)	662.7	1.3	19.0	0.0	0.0	0.0	252.1	188.5	231.2	64.6	43.0
Justice Shares (direct transfer)	1,007.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Sales Value	3,589.6	29.8	48.9	9.8	2.6	15.9	409.9	188.5	454.0	65.2	105.8
Percent of Total Disposals	73.0	0.6	1.0	0.2	0.1	0.3	8.3	3.8	9.2	1.3	2.2

Source: Iranian Privatization Organization, annual performance statistics on the value of disposition of shares and assets of companies qualified for being disposed (at current prices); SCI, consumer price index; Research calculations

During 1403, about 69.4 percent of the disposals took place in TSE, 19.9 percent in auctions, 10.4 percent in OTC and 0.2 percent via negotiation. Tables 19 and 20 illustrate

performance of the Iranian Privatization Organization by market type at current prices and also at constant 1395 prices, respectively.

Table 19. Privatization by Market Type (at current prices-IRR trillion)

	1380-1393	1394	1395	1396	1397	1398	1399	1400	1401	1402	1403	Share in Total in 1403
TSE	812.8	21.7	12.7	1.1	0.1	2.3	760.2	9.5	1,426.3	253.2	973.0	69.4
OTC	170.7	3.0	0.5	0.0	0.2	29.9	129.3	0.0	0.0	0.1	146.0	10.4
Negotiation	1.4	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	3.0	0.2
Auction	325.6	2.6	35.7	9.6	3.2	0.0	335.8	814.4	1,480.50	381.8	279.4	19.9
Total Sales Value	1,310.6	27.3	48.9	10.7	3.7	32.2	1,225.3	823.9	2,906.8	635.1	1,401.5	100.0

Source: Iranian Privatization Organization

Table 20. Privatization by Market Type (at constant 1395 prices-IRR trillion)

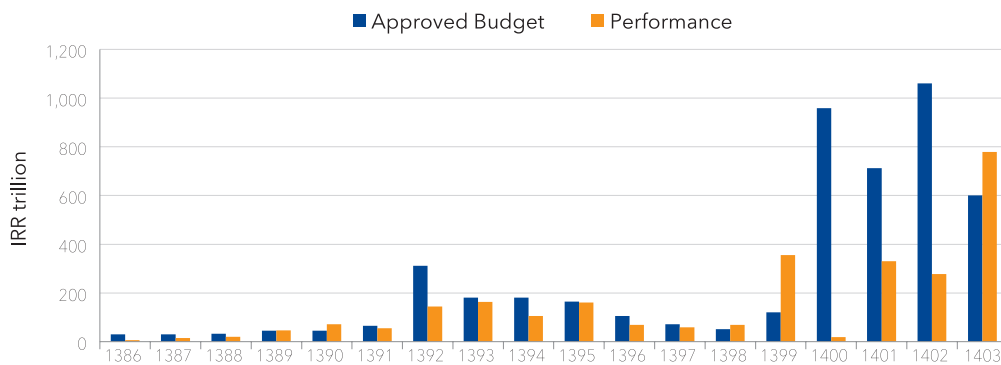
	1380-1393	1394	1395	1396	1397	1398	1399	1400	1401	1402	1403	Share in Total in 1403
TSE	2,439.6	23.6	12.7	1.0	0.1	1.1	254.3	2.2	222.8	26.0	73.5	69.4
OTC	401.4	3.2	0.5	0.0	0.1	14.7	43.3	0.0	0.0	0.0	11.0	10.4
Negotiation	4.5	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.2	0.2
Auction	744.1	2.9	35.7	8.8	2.2	0.0	112.3	186.4	231.2	39.2	21.1	19.9
Total Sales Value	3,589.6	29.8	48.9	9.8	2.6	15.9	409.9	188.5	454.0	65.2	105.9	100.0

Source: Iranian Privatization Organization, annual performance statistics on the value of disposition of shares and assets of companies qualified for being disposed (at current prices); SCI, consumer price index; Research calculations

According to the Iranian Privatization Organization report, IRR329.6 trillion of Privatization revenues was deposited with the Treasury in 1403. In the same year, IRR449.8 trillion of disposals took place through Debt Settlement. All in all, in the year 1403, the disposal of State-owned Companies totaled IRR779.4 trillion, overshooting the legislated figure

in 1403 Budget Law by 29.9 percent and should the figure of the Debt Settlement be excluded, the 129.9 percent realization ratio diminishes to 54.9 percent. A Comparison between the legislated and realized figure of Privatization in terms of Disposal of Shares of Stat-owned Companies is depicted in Graph 5.

Graph 5. Government Performance in Privatization



Source: Iranian Privatization Organization

3-4. Targeted Subsidies Plan

In 1403 Law and for 7 consecutive years, the details of the Sources and Uses of the Subsidies Reform Plan have been presented in a table that is more comprehensive than those in its preceding years. In fact, share of National Iranian Oil Company in Proceeds from Sales and Exports of Oil Products, Cost of Distribution and Sales of Energy Carriers, and Imports of Oil Products and Electricity are financed via Proceeds from Sales of Oil Products, Natural

Gas, Electricity, and Water. Moreover, the Organization of Targeted Subsidies uses the remaining funds for Cash and Non-cash Subsidies to Households, Decreasing Absolute Poverty, Health Promotion, Subsidy on Bread and Guaranteed Purchase of Wheat. The Sources and Uses of the Subsidies Reform Plan in 1402 and 1403 Laws are presented in Table 21.

Table 21. Targeted Subsidies Plan Sources and Uses in Budget Laws of 1402 and 1403 (IRR trillion-percent)

Sources				Uses				
Description	1402 Law	1403 Law	1403 to 1402 Growth Rate in Law	Corresponding Sector	Description	1402 Law	1403 Law	1403 to 1402 Growth Rate in Law
Domestic Sales of Oil Products	926.8	1,208.0	30.3	Treasury	VAT on Domestic Sales of Oil Products and Natural Gas	485.3	180.0	-62.9
Export of Oil Products	2,918.5	3,000.0	2.8					
Domestic Sales of Natural Gas	2,753.1	2,750.0	-0.1	Total Treasury		485.3	180.0	-62.9
Other Source of National Iranian Oil Company and its Subsidiaries	0.0	630.0	-	National Iranian Gas Company	Cost of Production, Distribution, and Sales of Natural Gas	243.8	80.0	-67.2
				National Iranian Oil Products Refining and Distribution Company	Charges for Transportation, Storage, and Distribution of Oil Products	390.0	432.0	10.8
					National Iranian Oil Company	0.0	50.0	-
				National Iranian Oil Company	14.5 Percent Share of National Iranian Oil Company from Exports and Domestic Sales of Oil Products	348.5	0.0	-100.0
				Total Cost of Production, Distribution and Transportation		982.3	562.0	-42.8
				Support of Production in Energy Sector		280.0	0.0	-
					Imports of Oil Products	0.0	800.0	-
					Uses of Energy Saving	0.0	50.0	-
				Other	Exempting Schools from Paying Gas, Electricity, and Water Bills and 2 Percent of the Price of Fuel Delivered to Aircrafts	0.9	0.0	-100.0
				Total Other		0.9	850.0	-
				Total Payables		1,748.4	1,592.0	-8.9
				Uses of Organization of Targeted Subsidies	Cash and Non-cash Subsidies to Households and Livelihood Assistance, Essential Goods, Bread and Medicine Subsidies	4,400.0	5,329.0	21.1
					Other	450.0	667.0	48.2
				Total Uses of Organization of Targeted Subsidies		4,850.0	5,996.0	23.6
Total Sources	6,598.4	7,588.0	15.0	Total Uses		6,598.4	7,588.0	15.0

Source: 1402 and 1403 Budget Laws

In 1403 Law, the Total Sources of the Subsidies Reform Plan - completely from the Sales of Energy Carriers - was estimated IRR7,588.0 trillion, 15.0 percent up from that of 1402 Law. Among the components of the Sources of the Plan, Proceeds from Domestic Sales and Exports of Oil Products grew by 30.3 percent and 2.8 percent, respectively, compared to 1402 Law. In addition, the Proceeds from the Domestic Sales of Natural Gas fell by 0.1 percent to IRR2,750.0 trillion in 1403 Law. The Proceeds from Sales of Feedstock to the domestic petrochemical

producers that were transferred to the Sources of the Subsidies Reform Plan in 1399 and 1400 from the Total Oil Revenues in General Sources of Government Budget, were again included in the General Sources of 1403 Law and excluded from the Sources of the Subsidies Reform Plan implicitly. In 1403 Law like the years prior to 1400, the Sources and Uses of Electricity and Water to the subscribers have been omitted from the Sources and Uses of the Subsidies Reform Plan.

According to 1403 Law, same as its preceding years, the Sources of the Subsidies Reform Plan are supposed to be spent for 2 sorts of Uses. The first group of Uses is associated with the Treasury, National Iranian Oil Products Refining and Distribution Company, National Iranian Oil Company, National Iranian Gas Company, Supporting Production in Energy Sector, and etc. This sort of Uses that are classified as off-plan, rose by 8.9 percent in 1403 Law compared to 1402 Law, however, its share in Total Uses in 1403 Law has declined. In addition, IRR800 trillion has been considered in off-plan uses under the title of "Imports of Oil Products" with 50.3 percent share in total off-plan uses. The second group of Uses directly deals with the objectives of the Plan expanded by 23.6 percent and its share in 1403 Law registered 79.0 percent to stand above the 73.5 percent of 1402. As for the second group, in 1403 Law, Cash and Non-cash Subsidies to Households and Livelihood Assistance, Subsidies on Essential Goods, Bread, and Medicine grew by 21.1 percent compared to the 1402 Law, accounting for 88.9 percent of the second

group of Uses and 70.2 percent of the Total Uses of the Subsidies Reform Plan.

Obviously, the Subsidies Reform Plan has not completely complied with the forecasted figures in 1403 Law in practice. In this regard, on the basis of the Supreme Audit Court of Iran, the Plan faced a deficit of IRR2,645.0 trillion in 1403 that was finance via the Sources of General Budget and the Revolving Fund of the Treasury and out of that figure, IRR345 trillion is attributed to its preceding year. On the basis of the same authority, in the first 11 months of 1403, only 53.0 percent of the legislated figure for Sources of the Plan in 1403 Law is realized, i.e., IRR3,686.5 trillion of the approved IRR6,955.7 trillion that had resulted in a deficit of IRR3,269.2 trillion. IRR2,690.0 trillion of this deficit, has been financed through Sources of General Budget as well as the Revolving Fund of the Treasury in the 11-month period under review. Accordingly, it seems that probably 579.2 trillion of the Uses of Plan has not materialized in the same period, however no data in that regard was issued.

4. BALANCE OF PAYMENTS

The Balance of Payments (BOP) which encompasses the Current Account, the Capital Account as well as the Errors and Omissions is estimated USD712 million by the CBI for the first 9 months of 1403, far below the USD1.2 billion of the first 9 months of 1402.

Even though the Current Account surplus of USD6.3 billion in the first 9 months of 1402 surged by 157.4 percent to USD16.2 billion in the first 9 months of 1403 and the Capital Account deficit of USD18.9 billion declined to USD14.0 billion during the same period, the BOP declined as a result of the changes of the Errors and Omissions. The surprisingly large figure of USD13.9 billion of Errors and Omissions in the first 9 months of 1402 equaled 92.3 percent of the Goods Account and 32.8 percent of the oil exports in that period. Even though the corresponding figure for this BOP component fell to negative USD1.4 billion in 1403, it is still considered large and solely signals an effort for more accuracy in BOP calculations.

The Current Account itself, consists of four components of Goods Account, Services Account, Income Account and Current Transfers Account. The Goods Account that is in fact the difference of the value of goods exports and imports and includes both oil and non-oil imports and exports, expanded by 68.8 percent to USD25.4 billion in the first 9 months of 1403 from USD15.0 billion in the same period of 1402. The non-oil trade balance deficit in the first 9 months of 1403 contracted by 10.3 percent to USD23.4 billion. However, much of the expansion in Goods Account

is attributed to the oil exports and imports. The value of the oil exports that had registered USD42.3 billion in the first 9 months of 1402 grew by 42.3 percent to USD50.0 billion in the first 9 months of 1403, mainly due to the rise in the quantity of oil exports. Moreover, the value of imports of natural gas as well as oil products did not change much, causing the trade oil balance to expand by 18.6 percent during the period under discussion.

The value of goods imports in the first 9 months of 1403 registered USD60.7 billion, up 2.9 percent from the USD59.0 billion of the same period of its preceding year, mainly thanks to the non-oil imports (other goods excluding natural gas and oil products). The value of imports of natural gas and oil products¹ that had totaled USD228 thousand in the year 1401, surged to USD1.3 billion in the first 9 months of 1403 as a result of the rise in the imports of fuel and gasoline and the exacerbation of energy supply crisis in Iran.

The Services Account deficit grew by 0.7 percent to USD8.1 billion in the first 9 months of 1403 from the USD8.0 billion of the same period of 1402. The Income Account deficit also rose to USD880 million from USD649 million during the same period. Table 22 presents the BOP in detail.

Table 22. Balance of Payments (USD million-percent)

	First 9 Months of 1402 (A)	1402 as a whole	First 9 Months of 1403 (B)	Percentage Change of B to A
Current Account	6,277	8,592	16,155	157.4
Goods Account	15,044	21,077	25,388	68.8
Exports (FOB)	74,092	100,519	86,130	16.2
Oil	42,315	56,796	50,071	18.3
Non-oil	31,788	43,723	36,059	13.5
Imports (FOB)	59,049	79,442	60,742	2.9
Gas and Oil Products	1,174	2,504	1,276	8.7
Others	57,874	76,938	59,466	2.7
Services Account	-8,075	-11,159	-8,128	0.7
Income Account	-649	-1,288	-880	35.7
Current Transfers Account	-43	-38	-226	421.0
Net Capital Account	-18,938	-19,882	-14,046	-25.8
Errors and Omissions	13,886	11,178	-1,397	-
Overall Balance	1,225	-112	712	-41.9

Source: Central Bank of Iran

1. Including customs and non-customs imports of oil products, natural gas, natural gas condensates and liquids

The BOP in the first 9 months of 1403 is translated to the improvement in Iran's international trade on the one hand and the continuation of the Capital Account deficit on the other hand. The remarkable expansion of Goods Account surplus due to the rise in oil and non-oil exports and the negligible increase in imports, contributed to the escalation of the Current Account. However, this expansion was eventually offset by the capital flight as well as the fall in the unidentified sources (Errors and Omissions), resulting in the fall in the Overall Balance in the first 9 months of 1403 compared to the same period of its preceding year. In other words, despite the contribution of exports to the BOP, the capital flight in conjunction with the uncertainties in the economy and lack of foreign direct investment are still the main obstacles of BOP stability that might adversely affect the foreign reserves of the country.

On the basis of the Islamic Republic of Iran Customs Administration (IRICA), during 1403 the customs exports of goods registered 151.0 million tons valued at USD57.8 billion, while that of the imports registered 39.2 million tons valued at USD72.4 billion, causing the customs trade deficit to fall to USD14.5 billion in 1403 from USD16.8 billion in 1402, due to faster growth of exports than imports in 1403. Under such circumstances, the exchange rate policy of the CBI has played a dual role, i.e., the rise in foreign exchange rates is more appealing for the exporters than importers

and on the contrary, the economic rents from multiple exchange rate system serves as the main reason of over-invoice of imports and under-invoice of exports.

In the year 1403, customs goods exports of Iran expanded by 10.0 percent in weight and by 15.6 percent in value and the customs goods imports of the country contracted by 0.8 percent in weight, while in terms of value expanded by 8.2 percent. In the same year, 61.644 million tons of petrochemicals valued at USD24.914 billion have been exported, indicating 27 percent rise in weight and 28 percent rise in value compared to 1402. Natural Gas, Liquefied Propane, and Liquefied Butane were the top 3 exports items of Iran in 1403 with respective exports values of USD6.866 billion, USD3.635 billion, and USD2.211 billion.

As for the imports items of Iran in 1403, Crude Oil, Cattle Feed Corn as well as Smart Phones were the top 3 with respective values of USD8.051 billion, USD2.978 billion and USD2.402 billion, followed by Oil Cake at USD1.954 billion, Soybean at USD1.318 billion, Trucks at USD1.273 billion, Rice at USD1.266 billion and finally Parts and Accessories of Motor Vehicles at USD1.053 billion. The details of Iran's customs trade in 1402 and 1403 are presented in Table 23.

Table 23. Iran's Customs Trade in 1402 and 1403

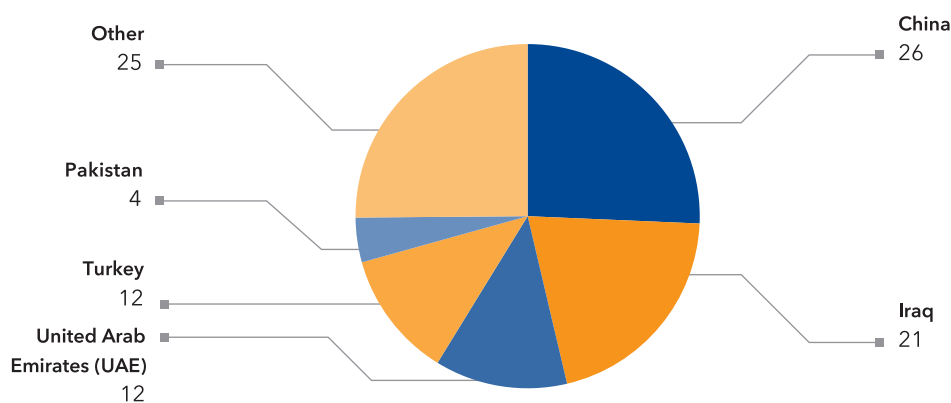
	1402			1403			Percentage Change	
	Weight (1000 tons)	Value (USD million)	Value to Weight Ratio (USD per ton)	Weight (1000 tons)	Value (USD million)	Value to Weight Ratio (USD per ton)	Weight	Value
Exports	138,118	50,028	362	151,971	57,844	381	10.0	15.6
Imports	39,561	66,877	1,690	39,258	72,375	1,844	-0.8	8.2
Customs Trade Balance	98,557	-16,849	-	112,713	-14,531	-	14.4	-13.8

Source: Islamic Republic of Iran Customs Administration

In the year 1403, much of Iran's customs exports - 74.9 percent of its total value - destined for China, Iraq, UAE, Turkey and Pakistan as the top 5 exports destinations of the country. During the period under review, the customs exports to China registered USD14.8 billion, constituting 25.7 percent of the total value of the customs exports of Iran. As for the remaining top exports destinations, 20.6

percent of Iran's customs exports is attributed to Iraq at USD11.9 billion, 12.5 percent to UAE at USD7.2 billion, 11.9 percent to Turkey at USD6.9 billion and 4.2 percent to Pakistan at USD2.4 billion. The major exports destinations of Iran in 1403 are shown in Graph 6 by their shares in total exports of Iran.

Graph 6. Major Custom's Exports Destinations of Iran in 1403 by Their Shares in Total (percent)

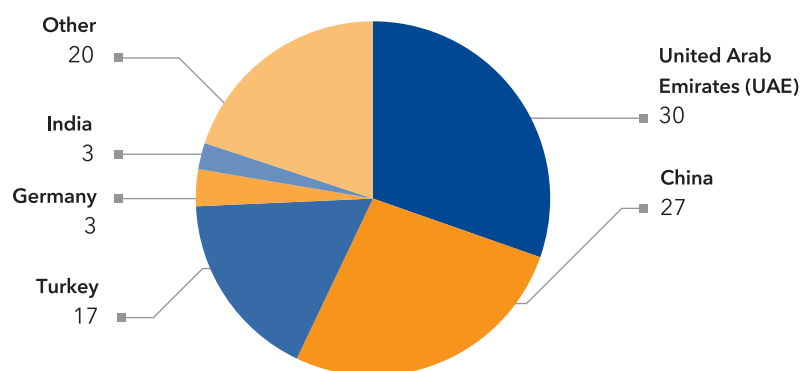


Source: Islamic Republic of Iran Customs Administration

In the same year, the value of UAE exports to Iran registered USD22.0 billion to form 30.4 percent of Iran's value of imports in that year as the top one source of imports of Iran. The 2nd and 3rd places of customs exports to Iran are, respectively, occupied by China and Turkey at USD19.3 billion and USD12.5 billion and shares of 26.7 percent and 17.2 percent in total imports value of Iran. Accordingly, the top 3 sources of Iran's customs imports

provided 74.3 percent of the countries import needs, translating to exerting substantial risk of concentration to the country's international trade. Moreover, Germany with USD2.4 billion and India with USD1.7 billion of exports to Iran served as the 4th and 5th sources of Iran's imports with respective shares of 3.4 percent and 2.4 percent shares in total value of Iran's customs imports. The major sources of Iran's customs imports in 1403 are shown in Graph 7.

Graph 7. Major Sources of Custom's Imports of Iran in 1403 by Their Shares in Total (percent)



Source: Islamic Republic of Iran Customs Administration

The IRICA statistics suggest USD74,317 billion for Iran's customs trade (imports and exports values in aggregate) with its neighboring countries in 1403, indicating 21.0 percent annual expansion. Among Iran's neighbors,

Saudi Arabia experienced the highest annual rise in its trade value with Iran in 1403, followed by Turkey with 63 percent, Qatar with 46 percent, and Afghanistan with 28 percent annual rises in the same year.

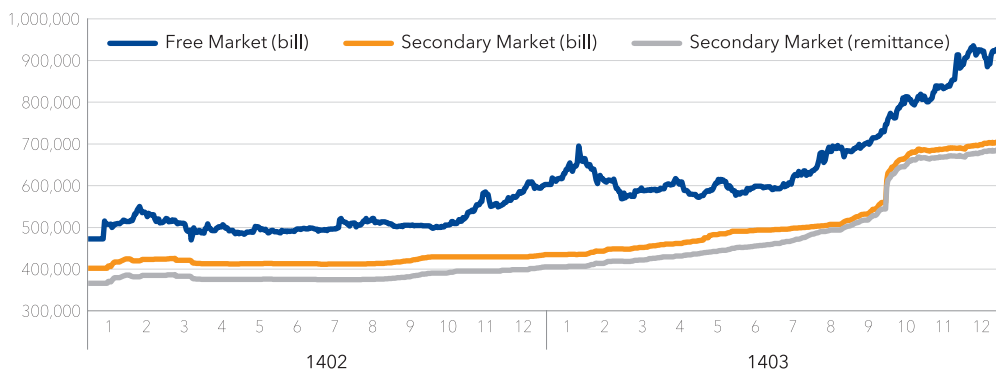
5. FOREIGN EXCHANGE MARKET

The USD price in the Iranian free market opened the first trading day of 1403 at IRR619 thousand and by 58.1 percent rise, closed that year at IRR978 thousand. The Iranian free market for foreign exchanges was highly volatile during 1403, mainly due to the political developments in various scales of domestic, regional and international.

The Rial depreciation that had boosted from winter 1402 due to the political developments in the Middle East, intensified in spring 1403 and by the end of the first month of that year, the free-market USD price rose to IRR700 thousand. The USD/IRR exchange rate stepped in a downward path from the second month of 1403 and till the

end of summer 1403 was hovering around 600 thousand. In fall 1403, again USD started to gain value against IRR and continued a steep continuous upward trend till the end of 1403. Graph 8 depicts the developments of the USD/IRR exchange rates in various markets in 1402 and 1403.

Graph 8. USD/IRR Exchange Rates in Various Markets in 1402 and 1403*



Source: Central Bank of Iran; Gold, Coin, and Currency Information Network
 * From the 9th month of 1403, the Commercial Foreign Exchange Market was added to the secondary market. In its initial stages, limited number of importers and exporters were able to trade foreign exchanges in the newly-established market albeit at higher rates. From the 11th month of 1403 all foreign exchange transactions in secondary market (except for imports of essential goods) were subject to be done in the new subdivision.

The upward path of the free-market USD/IRR exchange rate that had started since winter 1402, extended to the year 1403 and on the last day of the new-year holidays intensified. In response to the reciprocal action of Iran to the Israel attack on the IRI Consulate in Syria, the free-market USD/IRR exchange rate surpassed 660 thousand. However, once the tensions subsided, that rate reversed course from the second month of 1403 and in the aftermath of the winning of the moderate party in the early IRI Presidential Election, the free market for foreign exchanges calmed down in the early summer. Notwithstanding the

various political circumstances in summer 1403 including assassination of the chairman of the Hamas Political Bureau in Tehran that again casted shadow of pessimism over the Iranian economy, that quarter was less volatile than spring 1403. In summer 1403, the USD price in the free market averaged IRR590 thousand to stand 3 percent below that of its preceding quarter. Nevertheless, that calm foreign exchange market during summer 1404 did not last long and as the tensions ignited in the region once again in the late summer, the IRR also started to lose value against USD. The depreciation of IRR against the USD intensified

throughout fall 1403 in response to the limited attacks of Israel on some Military sites of Iran in mid-fall, reelection of Trump in the US Presidential Election and Fall of the Asad Regime in Syria by the end of that quarter. All in all, the USD/IRR exchange rate opened fall 1403 at around 600 thousand and closed that quarter at 762 thousand to average 675 thousand, indicating 14 percent rise compared to the average of its preceding quarter. The IRR experienced further depreciation in winter 1403 and the USD/IRR exchange rate even surpassed 800 thousand in that quarter. Right after the new US Administration took

office in Jan 2025, new sanctions were imposed on Iran - especially on its oil sales network - and the IRI Government reluctance to negotiate with the USA - despite its willingness in its early days - altogether resulted in the air of pessimism in the Iranian FOREX market and from mid-winter 1403, the USD price exceeded IRR900 thousand and finally closed the year 1403 at IRR978 thousand. The USD/IRR exchange rate in winter 1403 averaged 862 thousand to stand 28 percent above that of its preceding quarter. Table 24 presents the developments of the nominal USD/IRR bill exchange rate in various quarters of 1402 and 1403.

Table 24. Nominal Free-Market USD/IRR Bill Exchange Rates

	Average	Maximum	Minimum	Standard Deviation	Coefficient of Variation
Spring 1402	507,908	550,510	469,830	20,163	0.04
Summer 1402	493,654	508,610	483,100	5,045	0.01
Fall 1402	506,254	521,500	492,410	6,954	0.01
Winter 1402	554,401	609,200	499,490	34,305	0.06
1402	514,999	609,200	469,830	30,633	0.06
Spring 1403	611,620	695,000	568,500	27,926	0.05
Summer 1403	593,642	616,910	572,200	10,961	0.02
Fall 1403	675,159	773,650	595,500	44,376	0.07
Winter 1403	862,096	977,800	762,400	56,146	0.07
1403	684,269	977,800	568,500	112,741	0.16

Source: Central Bank of Iran; Gold, Coin and Currency Information Network; research calculations

The figures in Table 24 suggest that the Iranian free market for foreign exchanges have experienced highest volatility, respectively, in winter and fall 1403. Moreover, on the basis of the most recent CBI data while preparing this Annual Report, the Net Foreign Assets of the CBI at the end of 1402 has diminished compared to its preceding month and during its 11 succeeding months in 1403 has slightly changed. Hence, part of the stability of the Iranian foreign exchange market in the first half of 1403 could be attributed to the CBI exercises in the market, coinciding with the air of optimism due to the inauguration of a moderate Government in Iran. The data on the Net Foreign Assets of the CBI indicates that in the first 2 months of winter 1403, the CBI has not been able or willing to control the foreign exchange market.¹

The USD/IRR bill and remittance exchange rates in Iran Center for Exchange of Currency and Gold (secondary market) that were changing slightly in the first 8 months of 1403, severely increased from the beginning of fall 1403. Meanwhile, from the early fall 1403, another market was launched in the secondary market known as the Commercial Foreign Exchange Market, in which limited foreign exchange transactions took place at higher prices

than the previous official ones. However, it was planned that from the beginning of the 2nd month of winter 1403 all foreign exchange transactions (except for imports of essential goods) materialize in the newly established market, translating to putting an end to the previous official market exchange rates. Urging the Iranian exporters to supply their foreign proceeds within Iran, eliminating the economic rents from the exchange rate differential in various markets and finally moving towards the exchange rate unification were amongst the main objectives of establishing the Commercial Foreign Exchange Market. As a result of the rise in the secondary market exchange rates, the gap between the USD/IRR bill exchange rate in the free market and the secondary market narrowed down by 10 percentage points to 19 percent in the initial month of winter 1403 from its preceding month. However, it did not last long and due to the political tensions in winter 1403 and the air of pessimism in the market, that gap again rose to 25 percent and 32 percent in the last 2 months of winter 1403, respectively, albeit still blow those in the 3 months of spring 1403. As for the USD/IRR remittance rate, its difference with the USD/IRR free-market bill exchange rate that had exceeded 55 percent in the first month of 1403, reversed course from its following month and its

1. For further information in this regard take a look at the chapter of Monetary Policy

downward path maintained till the end of summer 1403. The gap between the 2 aforementioned rates stepped in an upward path from the beginning of fall 1403 and ultimately registered 22 percent, 28 percent, and 35 percent in the 3 consecutive months of winter that year. Accordingly, contrary to what was supposed to, the political tensions did not let the Commercial Foreign Exchange Market to

evaporate the gap between the exchange rates in various markets. On the basis of Iran Center of Exchange of Gold and Currency, from the beginning of the Commercial Foreign Exchange Market to the last trading day of the year 1403, the volume of transactions in terms of USD has totaled USD6.758 billion.

6. MONETARY POLICY

6-1. Monetary Aggregates

At the end of 1403, the Liquidity (M2) registered IRR101,742.3 trillion, indicating 29.1 percent annual expansion. Note that as the CBI was yet to publish the end-of-year details of the components of the monetary aggregates while preparing this Annual Report, details of the 11th month of 1403 are presented in the following sections. Accordingly, at the end of the 11th month of 1403, M2 registered IRR99,420.1 trillion to stand 27.8 percent above that of the same point in 1402 and 26.2 percent above that of the end of 1402. The monthly growth rate of

M2 averaged 2.2 percent in 1403, up from the average of 1.8 percent in its preceding year, signaling that the banks have not observed the decreed cap on monthly growth rate of their assets sometimes in 1403. As for the Monetary Base (M0), this monetary aggregate reached IRR12,729.4 trillion at the end of the 11th month of 1403, respectively, 22.0 percent and 16.6 percent above its levels in the same point of 1402 and at the end of 1402. Table 25 presents developments of M2 and M0 with their components at the end of the 11th month of 1403.

Table 25. Developments of M2 and M0 with Their Components (IRR trillion-percent-percentage point)

	End of Period Balance			Growth Rate at the End of 11/1403 from		Share in Growth Rate at the End of 11/1403 from	
	11/1402	12/1402	11/1403	11/1402	12/1402	11/1402	12/1402
Monetary Base (M0)	10,433.4	10,921.3	12,729.4	22.0	16.6	22.0	16.6
CBI Foreign Assets (net)	3,075.4	18,537.1	28,149.9	815.3	51.9	240.3	88.0
CBI Claims on Public Sector (net)	-199.2	-1,786.8	-828.5	-315.9	-53.6	-6.0	8.8
CBI Claims on Public Sector	4,421.1	4,742.8	6,192.8	40.1	30.6	17.0	13.3
Public Sector Deposits with CBI	4,620.3	6,529.6	7,021.3	52.0	7.5	-23.0	-4.5
CBI Claims on Banks	6,821.2	7,713.5	9,670.2	41.8	25.4	27.3	17.9
Other Assets (net)	736.0	-13,542.5	-24,262.2	-	79.2	-239.6	98.2
Balance of Implementation of Monetary Policy	1,610.3	2,040.0	3,402.5	111.3	66.8	17.2	12.5
Liquidity (M2)	77,795.9	78,774.5	99,420.1	27.8	26.2	Share in Liquidity at the End of	
						12/1402	11/1403
Money (M1)	19,273.8	19,146.4	25,072.0	30.1	30.9	24.3	25.2
Notes and Coins with the Public	1,286.0	1,468.8	1,523.0	18.4	3.7	1.9	1.5
Sight Deposits	17,987.8	17,677.6	23,549.0	30.9	33.2	22.4	23.7
Checks (net)	250.3	522.6	632.1	152.5	21.0	0.7	0.6
Quasi-Money	58,522.1	59,628.1	74,348.1	27.0	24.7	75.7	74.8
Interest-free Saving Deposits	6,834.7	7,603.5	10,412.7	52.4	36.9	9.7	10.5
Short Term Deposits	16,608.4	16,865.4	20,119.5	21.1	19.3	21.4	20.2
One-year Deposits	14,727.2	14,508.7	15,931.6	8.2	9.8	18.4	16.0
Two-year Deposits	4,035.1	4,183.5	3,116.0	-22.8	-25.5	5.3	3.1
Three-year Deposits	14,247.6	14,382.9	21,701.9	52.3	50.9	18.3	21.8
Four-Year Deposits	3.6	3.6	300.3	-	-	0.0	0.3
Five-year Deposits	65.5	65.2	64.0	-2.3	-1.8	0.1	0.1
Miscellaneous Deposits	2,000.0	2,015.3	2,702.1	35.1	34.1	2.6	2.7
M2 Money Multiplier	7.46	7.21	7.81	4.7	8.3	-	-

Source: Central Bank of Iran

The annual growth rate of M2 that had started to decline thanks to the implementation of the CBI macroprudential policy from the second half of 1400, reached its low of 24.1 percent in the first month of 1403 and was volatile till the end of the 7th month of that year. Standing still at 28.1 percent in its 2 succeeding months, the M2 growth rate registered 28.4 percent, 27.8 percent and 29.1 percent in 3 consecutive months of winter 1403. From a quarterly view point, M2 has expanded by around 2.0 percent in spring, by 2.8 percent in summer, and by 1.9 percent both in fall and winter 1403 on average per month. Hence, the higher monthly M2 growth rate in 1403 compared to 1402 is attributed to the higher growth rate of that monetary aggregate in summer 1403, due to the withdrawal of IRR500 trillion legal reserves with the CBI by the banks, aiming for allocation of mandatory facilities.

An examination of M2 by its components, Money (M1) and Quasi-money, reveals that in the 11th month of 1403, the former has expanded by 30.9 percent and the latter by 24.7 percent from the end of 1402. In the same point, M1 constituted 25.2 percent of M2, up 0.9 percentage point from its share in M2 at the end of 1402. At the end of the 11th month of 1403, the three-year deposits and the two-year deposits as the components of Quasi-money, respectively expanded by 50.9 percent and contracted by 25.5 percent from the end of 1402. The considerable expansion of the three-year deposits throughout 1403 emanates from the arbitrary waiver of the penalty for prematurity withdrawal by some banks and also conversion of matured one-year and two-year deposits to the three-year deposits with higher interest rate.

The M1 (notes and coins in circulation and sight deposits), interest-free saving deposits, and short-term deposits altogether formed 55.9 percent of the Liquidity at the end of the 11th month of 1403 which is considered a large share. The share of three-year deposits in liquidity in the same point registered 21.8 percent, below the share of sight-deposits in Liquidity at 23.7 percent. All in all, the shares of Liquidity components in this monetary aggregate convey that in the first 11 months of 1403, investment in long-term deposits has not been desirable. Subsequently, further rise in the share of sight deposits in Liquidity in the last month of 1403Q4 seems plausible, translating to more inflationary effect of the Liquidity.

The Monetary Base reached IRR12,729.4 trillion at the end of the 11th month of 1403, indicating 16.6 percent rise from the end of 1402 and 22.0 percent from the same period of 1402. The annual growth rate of M0 reached its low of 21.1 percent in the second month of 1403, but reversed course and continually increased in its 3 following months. The annual growth rate of M0 suddenly fell to 18.7 percent in the last month of summer 1403, far below the 41.7 percent at the end of summer 1402. The annual growth rate of M0, in a downward path registered 21.3 percent, 20.7 percent, and 20.0 percent in the 3 consecutive months of 1403Q3, but reversed course and, respectively, registered 21.2 percent and 22.0 percent in the first and second months of 1403Q4. At the end of the 11th month of 1403, the Net CBI Foreign Assets has expanded by 51.9 percent from the end of 1402, with the highest contribution of 88.0 percentage points to the M0 growth rate among its other components during the period under discussion. On the basis of the CBI report, the 51.9 percent rise in the Net CBI Foreign Assets has been mainly due to the rise in the USD/IRR exchange rate used for conversion of the assets denominated in foreign currencies to Rial. Accordingly, it is inferred that probably the weighted USD/IRR exchange rate¹ at the end of each month has been used for conversion of CBI foreign assets from the last month of 1402 onwards, far above the fixed USD/IRR conversion rate of 42 thousand that was previously used. Reconverting the Net CBI Foreign Assets to USD using the end of month weighted USD/IRR exchange rate, it is concluded that at the end of the 11th month of 1403, the Net CBI Foreign Assets has not only expanded but has also experienced a slight fall from the end of 1402. Given the USD/IRR exchange rate of 42 thousand used for asset conversion in the 11th month of 1402, the annual growth rate of the Net CBI Foreign Assets at the end of the 11th month of 1403 reaches 815 percent to form 240 percentage points of the annual growth rate of M0 during the period under discussion. Obviously, the considerable annual growth rate of Net CBI Foreign Assets is also attributed to the rise in USD/IRR exchange rate for conversion, i.e., the Net CBI Foreign Assets in USD at the end of the 11th month of 1403 indicates annual growth rate of negative 33 percent, considering this component as factor of decrease in M0 in the 12-month period under review.²

Given these explanations, in fact the CBI claims on banks

1. The weighted exchange rate solely represents a weighted average of USD/IRR bill and remittance exchange rates in the secondary market and the USD rate of IRR285 thousand for imports of essential goods. This rate registered IRR377 thousand at the end of 1402.

2. The weighted USD/IRR exchange rate at the end of the 11th month of 1403 and the end of 1402, registered 573 thousand and 377 thousand, respectively. The USD/IRR exchange rate for conversion of foreign assets prior to devise of the weighted rate registered 42 thousand. Hence, the value of Net CBI Foreign Assets in USD using these rates is calculated USD49.1 billion at the end of the 11th month of 1403, USD49.2 billion at the end of 1402, and USD73.2 billion at the end of the 11th month of 1402.

with 25.4 percent growth rate and 17.9 percentage points share has been the main driver of the M0 growth rate at the end of the 11th month of 1403 compared to the end of 1402, followed by Net CBI Claims on the Public Sector with 8.8 percentage points contribution to M0 growth rate in the same period. At the end of the 11th month of 1403, CBI Claims on Public Sector grew by 30.6 percent and Public Sector Deposits with CBI grew by 7.5 percent compared to the end of 1402 to make the Net CBI Claims on the Public Sector the second factor of increase in the M0 growth rate in the same period.

At the end of the 11th month of 1403, the CBI Net Other Assets that generally takes negative values, expanded by 79 percent from the end of 1402 (got larger in absolute value), in

order to offset the effect of the rise in USD/IRR exchange rate used for conversion of Net CBI Foreign Assets. Due to the negative nature of the CBI Net Other Assets, this component has served as the major factor of decrease in the M0 growth rate by negative 98.2 percentage points share at the end of the 11th month of 1403. At the end of the 11th month of 1403, the CBI Net Other Assets remained negative, despite the 67 percent expansion in the Balance of the Implementation of the Monetary Policy as its subgroup- normally taking positive values. As for the annual growth rate of the CBI Net Other Assets, the same logic holds, i.e., the negative 240 percentage points share in the annual growth rate of M0 roots in the CBI exercise to eliminate the effect of the increase in the USD/IRR exchange rate used for conversion of Net Foreign Assets.

6-2. Sources and Uses of the Iranian Banking System

The aggregated balance sheet of the banks and non-bank credit institutions reveals that at the end of the 11th month of 1403, their Assets (or Liabilities) less below the line items have grown by 46.6 percent from the same point in 1402 and by 43.0 percent from the end of 1402. On the Assets side, Foreign Assets, Claims on Non-public Sector, and Other Assets, respectively, were the top 3 contributors to both the annual and 11-month growth rates of the Assets. Note that in the aftermath of the revision of M0 components in the CBI

books from the dates 1400 and after, the Deposits with the CBI includes those in IRR only and the deposits in foreign currencies are included in Other Assets of the banks. On the Liabilities side, Deposits of Non-public Sector, Foreign Liabilities, and Other Liabilities were the top 3 drivers of the annual and 11-month expansions of the Liabilities. A summary of Assets and Liabilities of the banks and non-bank credit institutions is presented in Table 26.

Table 26. Summary of Assets and Liabilities of Banks and Non-bank Credit Institutions (IRR trillion)

	End of Period Balance			Share of Banks and Non-bank Credit Institutions at the End of 11/1403			Percentage Change in 11/1403 from	
	11/1402	12/1402	11/1403	Public Commercial	Public Specialized	Non-public	11/1402	12/1402
Assets (excluding below the line items)	138,584.6	142,022.3	203,161.0	47,285.8	29,933.7	125,941.5	46.6	43.0
Foreign Assets	23,203.0	23,854.1	46,413.3	6,996.9	10,977.6	28,438.8	100.0	94.6
Notes and Coins	168.4	191.9	363.0	163.1	22.1	177.8	115.6	89.2
Deposits with the CBI	8,979.0	9,260.6	10,843.4	2,704.6	720.0	7,418.8	20.8	17.1
Claims on Public Sector	9,193.8	9,749.4	13,048.7	5,999.1	2,962.9	4,086.7	41.9	33.8
Claims on Non-public Sector	64,414.7	66,509.0	83,814.6	17,372.2	11,343.2	55,099.2	30.1	26.0
Others Assets	32,625.7	32,457.3	48,678.0	14,049.9	3,907.9	30,720.2	49.2	50.0
Liabilities (excluding below the line items)	138,584.6	142,022.3	203,161.0	47,285.8	29,933.7	125,941.5	46.6	43.0
Deposits of Non-public Sector	76,509.9	77,305.7	97,897.1	24,980.0	8,800.3	64,116.8	28.0	26.6
Debt to CBI	6,821.2	7,713.5	9,670.2	3,016.6	1,814.8	4,838.8	41.8	25.4
Deposits of Public Sector	458.7	392.0	704.9	331.5	257.4	116.0	53.7	79.8
Capital Account	1,210.8	2,599.6	3,987.3	327.8	937.2	2,722.3	229.3	53.4
Foreign Deposits	19,668.9	20,479.7	38,954.0	6,341.7	9,600.9	23,011.4	98.0	90.2
Other Liabilities	33,915.1	33,531.8	51,947.5	12,288.2	8,523.1	31,136.2	53.2	54.9

Source: Central Bank of Iran

At the end of 1403, the balance of extended facilities by banks registered IRR106,789.8 trillion, up 51.5 percent from the IRR70,682.3 trillion in the same point of 1402. The balance of deposits also grew by 47.6 percent to IRR135,254.5 trillion in the same period. Accordingly, the ratio of extended facilities to deposits less legal

reserves reached 86.3 percent at the end of 1403, only 1.1 percentage point above that of the end of 1402. The balance of extended facilities and deposits of the banks and non-bank credit institutions at the end of 1403 are presented in Table 27.

Table 27. Balances of Facilities and Deposits in IRR and Foreign Currencies (end of period - IRR trillion)

	12/1402	12/1403	Percentage Change
Extended Facilities	70,682.3	106,789.8	51.1
Deposits	91,629.2	135,254.5	47.6
Deposits Less the Required Reserves	82,974.0	123,756.1	49.2
Ratio of Extended Facilities to Deposits Less the Required Reserves (percent)	85.2	86.3	-

Source: Central Bank of Iran

During 1403, IRR76,643.0 trillion facilities has been extended to various sectors of the economy by the banking system, indicating 32.9 percent rise compared to its preceding year. Out of the total extended facilities in the period under discussion, 77.8 percent, equivalent to IRR59,658.6 trillion is attributed to the businesses (individuals and legal entities) and the remaining 22.2 percent at IRR16,984.4 trillion to the final consumers (households). Going over the extended facilities by

various sectors of the economy reveals that during 1403, Industries and Mining sector had the highest share of 40.3 percent in total extended facilities to the businesses, followed by Services sector at 39.4 percent. Among various types of extended facilities, in the same period, 78.0 percent of extended facilities to businesses and 60.7 percent of the total extended facilities were attributed to the Working Capital. The extended facilities by type of recipients in 1403 are shown in Table 28.

Table 28. Extended Facilities by Type of Recipients in 1403 (IRR trillion - percent)

Sector of the Economy	Amount	Share in Businesses
Agriculture	3,210.5	5.4
Industries and Mining	24,060.4	40.3
Housing and Construction	2,827.3	4.7
Commerce	5,996.8	10.1
Services	23,514.0	39.4
Miscellaneous	49.5	0.1
All Sectors	59,658.6	Share in Total
		77.8
Final Consumers (households)	16,984.4	22.2
Total	76,643.0	100.0

Source: Central Bank of Iran

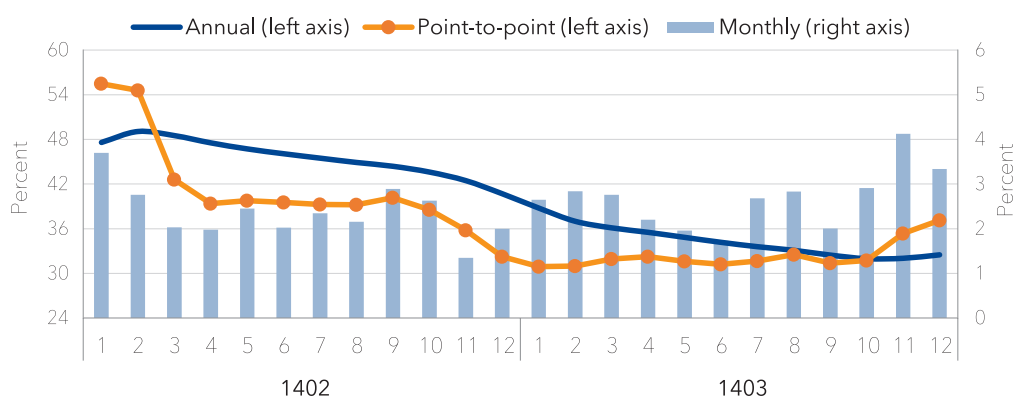
7. PRICES AND INFLATION

The downward path of the annual Consumer Price Index (CPI) inflation rate that had started from the early 1402 extended to 1403 and maintained till the 11th month of that year. On the basis of the SCI, the annual CPI inflation rate opened the year 1403 at 38.8 percent and in a downward path reached its low of 32.0 percent in the 11th month of that year. Finally, by 0.5 percentage point rise, that rate closed the year 1403 at 32.5 percent.

Moreover, the point-to-point CPI inflation rate that was hovering around 32.0 percent during the first 10 months of 1403, started to rise from winter that year and closed the year 1403 at 37.1 percent. The highest monthly CPI

inflation rate was experienced in the 11th month of 1403 at 4.1 percent, while the lowest in its 6th month at 1.7 percent. Graph 9 depicts the developments of the CPI inflation rates in 1402 and 1403.

Graph 9. CPI Inflation Rates



Source: Statistical Center of Iran

The annual CPI inflation rate started to decline from the end of spring 1402 thanks to the implementation of the CBI macroprudential policy in 1400. The SCI reports suggest that the annual CPI inflation rate that was continually standing above 40 percent in 1402, fell below that level in the first month of 1403 to register 38.8 percent. Maintaining its downward path, the annual CPI inflation rate registered its low of 32.0 percent in the 11th month of 1403 but with a slight rise closed that year at 32.5 percent. The point-to-point CPI inflation rate that was relatively stable during much of the year, started to rise to 31.7 percent in the 10th month of 1403 and finally closed that year at 37.1 percent. Hence, contrary to its downward

path in winter 1402, the point-to-point CPI inflation rate was increasing throughout winter 1403. The monthly CPI inflation rate that took different values in 1403 was higher than that of 1402 on average and registered its high of 4.1 percent in the 11th month of 1403 and its low of 1.7 percent in the 6th month of that year, both above the corresponding monthly rates in 1402. On the basis of the CBI report on the monetary aggregates, except in summer 1403, the CBI cap on the monthly growth rate of the banks' assets has been observed by the banks, hence the upward paths of the annual and point-to-point CPI inflation rates in winter 1403 could be partly attributed to the rise in the monthly growth rate of the banks' assets in summer 1403.¹

1. For further information in this regard look at the chapter: Monetary Policy

Even though the CBI has ceased official issuance of CPI data since the last month of 1401, the CPI inflation rate calculated by this authority for the year 1403 based on unofficial sources is 35.8 percent, above the 32.5 percent of the corresponding rate of the SCI. As for the end of the year point-to-point CPI inflation, similarly, the reported 39.7 percent rate by the CBI stood above the 37.1 percent of the SCI report. Despite these different rates, both rates have followed similar trends.

An examination of the CPI inflation rates by the 12 groups of the consumption basket of goods and services in the last month of 1403 in the SCI report reveals that the highest annual inflation rate of 39.8 percent is attributed to Housing, Water, Electricity, and Other Fuels, while the lowest rate of 21.1 percent belongs to Communication. The group of Other itself, experienced the highest annual and point-to-point inflation rates of 48.3 percent and 5.1 percent, respectively, in the same month and the lowest point-to-point and monthly inflation rates in the period under review, respectively, belonged to Communication at 23.6 percent and Education at 0.1 percent.

Going over the SCI consumption basket on the basis of the weights assigned to each group, the annual inflation rate in Housing, Water, Electricity, and Other Fuels with the highest weight in the basket registered its low of 39.3 percent at the end of spring 1403. That rate started to rise from the early summer to reach its high of 41.0 percent in the first month of fall 1403, but again reversed course and in a continuous

downward path closed the year 1403 at 39.8 percent. The point-to-point inflation rate of the same group peaked 42.1 percent in the 2nd month of summer and till the end of fall 1403 reached 38.0 percent, but that trend slowed down in winter and closed that quarter at 37.1 percent. The monthly inflation rate in the same group was highly volatile and took different values throughout 1403. The annual inflation rate in Foods and Beverages that takes the 2nd highest weight in the consumption basket based on SCI, continually fell from the beginning of 1403 and from 37.3 percent in the first month of that year fell to its low of 26.0 percent in the first month of winter 1403 and finally closed that year at 28.0 percent. The point-to-point inflation rate in the same group experienced an upward path in much of the year 1403 but in the summer. The upward path of the point-to-point inflation rate in Foods and Beverages intensified in winter 1403 and closed the year at 41.0 percent, far above its opening rate of 23.6 percent. From a monthly view point, inflation rate in Foods and Beverages was highly volatile. The developments of the inflation rates in the top 2 groups of the consumption basket by weight that altogether constitute 65.0 percent of the weights of the SCI consumption basket indicates that at the end of 1403, the annual inflation rate in the former group has increased while in the latter has decreased compared to the corresponding rates at the end of 1402. The inflation rates of the various groups of the consumption basket of goods and services at the end of 1403 are presented in Table 29 based on SCI.

Table 29. Inflation Rates of the Consumption Basket of Goods and Services at the End of 1403 (percent)

	Base Year (1400) Weight	Inflation		
		Monthly	Point-to-point	Annual
Overall	100.00	3.3	37.1	32.5
Housing, Water, Electricity and Other Fuels	36.11	2.0	37.1	39.8
Foods and Beverages	28.82	4.9	41.0	28.0
Transport	8.93	2.5	29.3	27.6
Health	6.68	1.5	32.4	29.2
Clothing and Footwear	4.52	4.9	32.4	31.3
Other Goods and Services	4.42	5.1	48.3	38.4
Household Equipment	4.40	4.1	34.1	27.2
Communication	2.41	2.4	23.6	21.1
Restaurants and Hotels	1.35	2.8	30.0	33.5
Education	0.88	0.1	34.8	36.9
Recreation and Culture	0.87	2.7	33.1	29.8
Tobacco	0.62	3.7	30.0	27.5

Source: Statistical Center of Iran

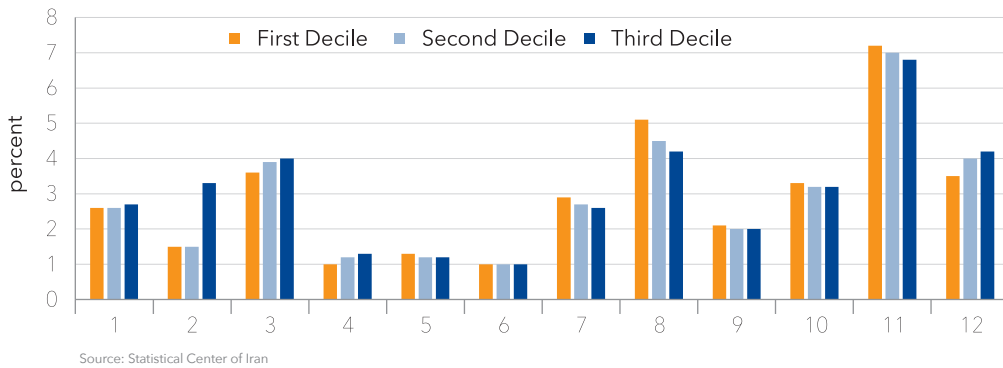
An examination of the monthly CPI inflation rates by various cost deciles indicates that in the first 4 months

and in the last month of the year 1403, the bottom 3 cost deciles experienced the lowest inflation rates in Foods

and Beverages as well as Tobacco while in the rest of the same year, they experienced the highest inflation rates in the 2 aforementioned groups. In the 11th month of 1403, the monthly inflation rate in Foods and Beverages as well as Tobacco, altogether registered 7.2 percent for the first cost decile and, respectively, 7.0 percent and 6.8 percent for the 2nd and 3rd ones, the highest rates relative to the rest of the cost deciles in 1403. Hence, given the considerable

weight of the Foods and Beverages as well as Tobacco in the consumption basket of the bottom cost deciles, in 7 months of the year 1403, these deciles have incurred higher inflationary pressure regarding providing their basic needs than the others. The monthly inflation rate of Foods and Beverages as well as Tobacco in 1403 in the bottom 3 cost deciles are shown in Graph 10.

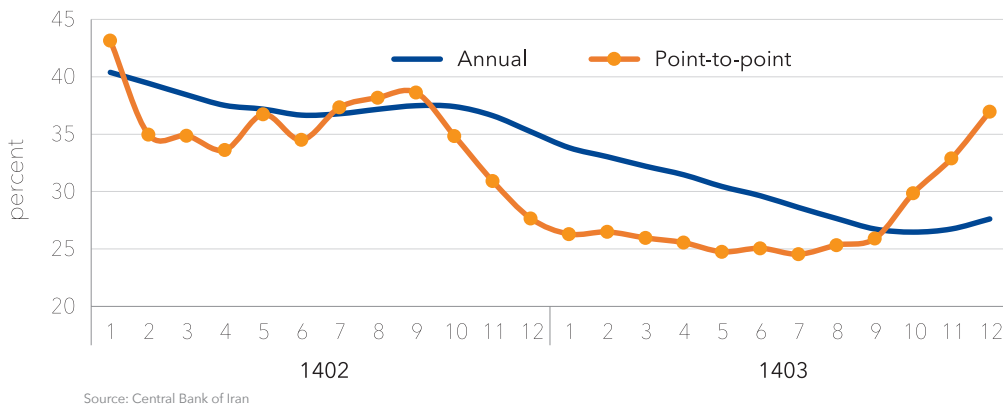
Graph 10. Monthly Inflation Rates of Foods and Beverages and Tobacco in Bottom 3 Cost Deciles in 1403



The SCI calculates the Producer Price Index (PPI) on a quarterly basis, using the year 1395 as the base year, while the CBI calculates the same index on a monthly basis and using the year 1400 as the base year. On the basis of the CBI, the annual PPI inflation rate as a leading indicator of the CPI inflation rate fell below 30 percent at the end of summer 1403, following its downward path from winter 1402. That rate registered its low of 26.5 percent in the first month of winter 1403 and finally closed the year 1403 at 27.6 percent. Moreover, the point-to-point PPI inflation

rate that had reached its low of 24.5 percent in the first month of fall 1403, started to rise and eventually closed the year 1403 at 37.0 percent. The SCI report also suggests a downward path for the annual PPI inflation rate - ending in each quarter - with 31.7 percent at the end of winter 1403. Despite the distinction between the PPI inflation rates calculated by these two issuing authorities, they have followed same trends in 1403. The annual and point-to-point PPI inflation rates in 1402 and 1403 on the basis of the CBI reports are shown in Graph 11.

Graph 11. PPI Inflation Rates in 1402 and 1403



8. CAPITAL MARKET

The Overall Index of the TSE closed the year 1403 at 2.710 million, up 23.5 percent from the 2.195 million of the end-of-year index of 1402. The TSE Equally-weighted Index also experienced 7.1 percent rise and from 742.6 thousand at the end of 1402 reached 795.3 thousand at the end of 1403.

Note that the TSE Overall Index reacts more to the price and return of the shares of the large listed companies, while in the Equally-weighted Index, same weights are assigned to the listed companies, regardless of their size. Hence, the developments of the two aforementioned indices convey that the smaller companies have yielded less than the large

ones in the period under discussion. Moreover, the OTC Overall Index registered 24.315 thousand at the end of 1403, down 4.1 percent from that of the end of 1402. The daily developments of TSE and OTC Overall Indices from 1401 to 1403 are shown in Graph 12.

Graph 12. TSE and OTC Overall Indices from 1401 to 1403



Source: <http://new.tse.ir>, <http://ifb.ir>

8-1. Tehran Stock Exchange (TSE)

The TSE Market Capitalization¹ at the end of 1403 reached IRR89,562 trillion, indicating 14.3 percent rise compared to the end of 1402. The market capitalization of Stock Market, Exchange-traded Funds (ETFs), as well as the Debt Securities, respectively, expanded by 13.2 percent, 77.4 percent and 20.4 percent at the end of 1403 compared to the end of 1402. The market capitalization of these three segments of the Iranian Capital market constituted 96.3 percent, 2.5

percent and 1.3 percent of the TSE market capitalization at the end of 1403, respectively. During the year 1403, the TSE Overall Index expanded by 23.5 percent and the Equally-weighted Index by 7.1 percent. The higher expansion of the former than that of the latter signals that the shares of large listed companies have gained more value than those of the small companies, on average in 1403. The TSE Free-float² Index also registered 3,385 thousand at the end of 1403,

1. The TSE Market Capitalization is the sum of the Market Capitalizations of stock market, debt securities, and exchange-traded funds in TSE based on the Securities and Exchange Organization of Iran.

2. Free-float, also known as public float, refers to the shares of a company that can be publicly traded and are not restricted. In other words, the term is used to describe the number of shares that is available to the public for trading in the secondary market.

up 18.7 percent from that of the end of 1402. From the lower growth rate of the TSE Free-float Index than that of the Overall Index in 1403, it is grasped that the price of the shares of companies with less free-float shares has expanded more than the share price of those with more free-float shares. In addition, the higher expansion of TSE Overall Index than its Equally-weighted Index and Free-float Index could indicate some large shareholders' efforts to control the stock market, aiming to avoid overall index volatilities by taking part in transactions of the shares of major companies, especially

those with low free-float shares. Moreover, the considerable and persistent gap between the TSE Overall Index growth rate and that of the Free-float Index could signal lower liquidity of stock portfolios. In 1403, the index of the top 30 largest listed companies in TSE expanded by 25.9 percent, above the annual growth rate of the TSE Overall Index, translating to remarkable role of those 30 companies in the market path during 1403. In Table 30, some important statistics of TSE are presented.

Table 30. Some Important Statistics of the TSE (end of period)

	Market Capitalization (IRR trillion)	Equally-Weighted Index (thousand)	Overall Index (thousand)	Financial Index (thousand)	Industrial Index (thousand)	Free-Float Index (thousand)
1402	78,374	743	2,195	1,918	2,090	2,851
1403	89,562	795	2,710	2,311	2,590	3,385
Percentage Change	14.3	7.1	23.5	20.5	23.9	18.7

Source: <http://new.tse.ir>

The total value of TSE transactions in 1403 stood 14.8 percent above that of 1402. In the year 1403, the highest rise and fall in value of TSE transactions, respectively, belonged to Derivatives at 102.4 percent and to Stocks at negative 25.1 percent. The 25.1 percent contraction in the value of the transactions of the Stock market could be attributed to the political risks as well as daily price fluctuation limit. In addition, the Professional Investment market that was launched in the second half of 1402 for the first time as

a subsidiary of the TSE, through which shares of Project Companies, Venture Capital Funds, and Private Funds are supplied, experienced 67.0 percent expansion in its value of transactions in 1403. As for the ETFs value of transaction, its 81.6 percent expansion in 1403 reveals the fact that in the period under review, the ETFs - especially Gold Funds - have been more appealing to investors than the Stock market. In Table 31, the value of the transactions in various TSE markets during 1402 and 1403 are compared.

Table 31. Value of Transactions in Various TSE Markets During 1402 and 1403 (IRR trillion)

Market	1402	1403	Percentage Change
Shares	12,545	9,391	-25.1
Debt Securities	1,106	1,291	16.7
Derivatives	252	510	102.4
Professional Investment	18	31	67.0
Exchange-traded Funds	7,128	12,942	81.6
Total	21,049	24,165	14.8

Source: <http://new.tse.ir>

The Trading volume of TSE in 1403 reached 3,241.2 billion (shares or other securities), about 14.7 percent above the end of 1402. Moreover, the number of transactions in TSE in 1403 fell by 23.8 percent compared to its preceding year. Accordingly, the average value of TSE per transaction that

had registered IRR152.2 million in 1402, grew to IRR229.5 million in 1403. The volume and number of transactions and average value of each transaction in TSE by market type in 1402 and 1403 are shown in Table 32.

Table 32. Volume and Number of Transactions and Average Value of Each Transaction in TSE by Market Type in 1402 and 1403

	Volume of Transactions (billion shares or other securities)			Number of Transactions (1000 times)			Average Value of Each Transaction (IRR million)		
	1402	1403	Percentage Change	1402	1403	Percentage Change	1402	1403	Percentage Change
	Shares	2,368.9	2,502.2	5.6	113,000.0	70,859.6	-37.7	111.0	132.5
Debt Securities	1.2	1.4	18.3	11.5	17.1	48.7	95,997.1	75,352.0	-21.5
Derivatives	28.9	30.6	5.9	6,201.1	13,536.8	118.3	40.6	37.7	-7.3
Exchange-traded Funds	414.6	686.1	65.5	18,873.6	20,605.4	9.2	377.7	628.1	66.3
Professional Investment	11.8	21.0	77.5	207.6	295.1	42.1	88.7	104.2	17.5
Total	2,825.4	3,241.2	14.7	138,293.8	105,314.0	-23.8	152.2	229.5	50.7

Source: <http://new.tse.ir>

During 1403, IRR3,581.3 trillion was financed via the TSE listed companies, of which, 86.9 percent was through Raising Capital (matured claims and cash contributions, or accumulated reserves and profits), 8.8 percent through Issuance of Debt Securities, and 3.0 percent in form of Put Options. Moreover,

IRR31.1 trillion was financed through the Initial Public Offering (IPO) held by five newly-listed companies in 1403. Details of the various methods of finance of TSE listed companies during 1402 and 1403 are found in Table 33..

Table 33. Various Methods of Finance by TSE Listed Companies (IRR trillion-percent)

	1402		1403		1403 to 1402 Percentage Change
	Value	Share in Total (percent)	Value	Share in Total (percent)	
Total	2,869.3	100.0	3,581.3	100.0	24.8
Raising Capital (except for Asset Revaluation and Stock Premium)	2,495.8	87.0	3,113.0	86.9	24.7
Initial Public Offering	15.7	0.5	31.1	0.9	98.5
Issuance of Debt Securities	208.2	7.3	313.8	8.8	50.7
Issuance of Put Options	129.6	4.5	105.8	3.0	-18.3
Underwriting	20.0	0.7	17.6	0.5	-12.2

Source: <http://new.tse.ir>

In the year 1403, the TSE was affected by various factors. In spring 1403, various risks were exerted to the Iranian capital market due to the economic and political circumstances. The intensified tensions in the Middle East region, passing away of the IRI President and his companions, and the narrower daily price fluctuation limit of the capital market were the major drivers of the capital market indices. At the end of spring 1403, the TSE and OTC Overall Indices, respectively, experienced annual contractions of 6.9 percent and 13.7 percent.

The promises of the new IRI Government in summer 1403 regarding elimination of decreed pricing in industries, joining the FATF, and lifting the sanctions resulted in the air of optimism in the Iranian capital market. Furthermore, the narrower gap between the USD/IRR bill exchange rate in the free market and its remittance exchange rate in the secondary market³ and consequently the expansion of exports proceeds of various industries and rise in

basic prices of petrochemicals and steel products in Iran Mercantile Exchange, might end up with expansion of operating revenues of such industries. On the other hand, the frequent power outage in summer 1403 was the dominant factor that adversely affected the Iranian capital market. On the basis of the TES report, the electricity consumption in industries including Cement, Plaster and Lime, Basic Metals, Extraction of Metallic Minerals and Chemicals, respectively, fell by 29 percent, 28 percent, 14 percent, and 7 percent in the second month of summer 1403 compared to the first month of the same quarter due to the power outage, translating to the fall in production of those industries. For instance, the production of Basic Metal Industry as the largest electricity consumer fell by 39.1 percent and 44.0 percent in the second and the third month of summer 1403 compared to the first month of the same quarter. All in all, the air of optimism in the aftermath of the 14th Presidential Election was evaporated by negative circumstances in summer 1403. Accordingly,

3. The gap that had registered 47.9 percent in the first month of spring 1403 dropped to 30.0 percent at the end of summer 1403.

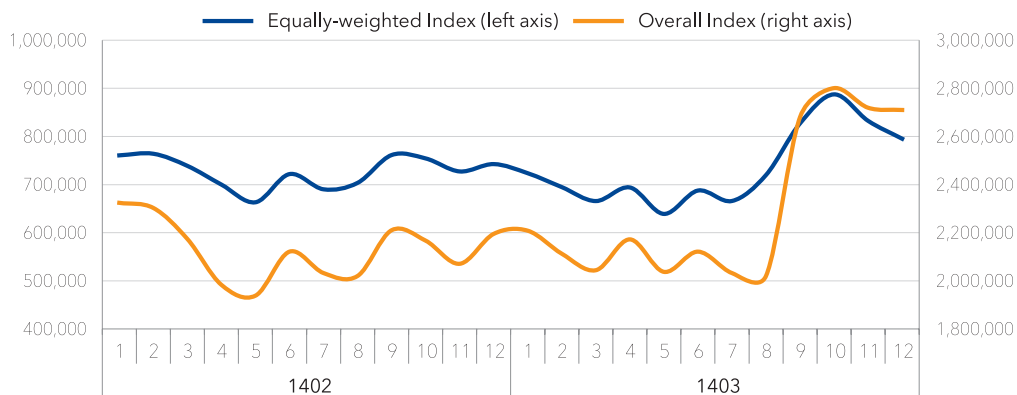
the TSE Overall Index rose by 2.6 percent only during 1403Q2 (below the inflation rate of that quarter), while the OTC Overall Index dropped by 0.1 percent during the same period.

At the end of the 1st month of fall 1403, the TSE Overall Index fell by 4.3 percent compared to its preceding month, mainly due to the extensive outflow of retail capitals as a result of uncertainties from political tensions in the Middle East. The net outflow of natural persons capital that was mainly in Stocks and ETFs in the early fall 1403, reached IRR7.8 trillion, indicating the dominance of political atmosphere in investors' decisions. During the 2nd and 3rd months of fall 1403, the bearish trend of the Iranian capital market reversed course as the political tensions in the Middle East region subsided, the remittance rate in the secondary market for foreign exchanges rose, and higher profitability of export-oriented companies was expected. All in all, the TSE and OTC Overall Indices closed fall 1403

with 27.8 percent and 17.5 percent expansions compared to the end of summer 1403, respectively.

The inauguration of new Trump's Administration coincided with winter 1403 and the policy of maximum pressure on Iran revived. Hence, the new sanctions on the Iranian Oil sector and petrochemical industries adversely affected the Iranian capital market. In the last month of 1403, dismissing of the Minister of Economic Affairs and Finance by the IRI Parliament was another factor of exerting more risk on the Iranian capital market. All in all, under such circumstances the investors' attention was more attracted to safer commodities like gold, in a sense, that in winter 1403 itself, the Gold Funds yielded 73.4 percent on average. The TSE and OTC Overall Indices, respectively, expanded by 1.1 percent and contracted by 5.3 percent at the end of winter 1403 compared to the end of fall 1403. The developments of the TSE Overall and Equally-weighted indices in 1402 and 1403 are shown in Graph 13.

Graph 13. TSE Overall and Equally-weighted Indices in 1402 and 1403



Source: <http://new.tse.ir>

8-2. Over the Counter (OTC)

The OTC Market Capitalization at the end of 1403 rose by 12.2 percent to IRR29,118 trillion compared to the end of 1402, of which, 60.5 percent was attributed to the value of shares of the listed companies in OTC, 32.6 percent to Debt Securities, and 7.0 percent to the ETFs as well as Mortgage Right Securities. Hence, the total market capitalization of the Iranian capital market (including TSE

and OTC) reached IRR118,679 trillion at the end of 1403, up 13.7 percent from the end of 1402 and above its 5.9 percent annual growth rate in 1402. The trading volume in OTC reached 2,034.9 billion (shares or other securities) in 1403, indicating 12.4 percent rise from its preceding year. Table 34 compares major OTC Indices in 1402 and 1403..

Table 34. Major Over the Counter Indices

	Market Capitalization (IRR trillion-end of period)	Total Value of Transactions (IRR trillion-during period)	Volume of Transactions (billion-during period)	Overall Index (thousand-end of period)
1402	24,726.7	169,718.6	1,810.4	25.367
1403	28,597.6	253,004.9	2,034.9	24.315
Percentage Change	15.7	49.1	12.4	-4.1

Source: Iran Fara Bourse

Except equities, other securities in the OTC are classified as the modern financial instruments. Unlike its 38.4 percent share in OTC Market Capitalization, the market for modern financial instruments constituted close to 98.5 percent of the total value of OTC transactions in 1403. Accordingly, in the year 1403, more than 85.8 percent of the value of the transactions in the Iranian capital market (including TSE and OTC) was attributed to Debt Securities, 4.7 percent to Stocks and the remaining mainly to the ETFs.

The Market Capitalization and value of the transactions in the market for modern financial instruments grew by 15.7 percent and 52.3 percent, respectively, at the end and during 1403 compared to its preceding year. Government Murabaha Debt Securities - aiming for public finance - constituted a sizable portion of the modern financial instruments in 1403 like its preceding years. In 1403 the value of transactions of Government Murabaha Debt Securities grew by 61.7 percent to IRR209,192 trillion compared to the IRR129,382 trillion in 1402. In addition, another type of government debt securities, Islamic Treasury Bills and Bonds (known as AKHZA) aimed to finance government debt to contractors were also traded

in the secondary market, with their value of transactions at IRR26,723 trillion in 1403.

The ETFs as well as the Venture Capital Funds were among the other modern financial instruments that, respectively, experienced remarkable rises of 67.0 percent and 388.0 percent in their value of transactions in 1403. The rise in the number of transactions of ETFs in the OTC mainly rooted in the underwriting of new Sector Funds and higher number of transactions of Leveraged Investment Funds. In addition, in 1400, the first Fund of Funds (FOF) also stepped in the OTC. The value of transactions of FOFs in 1403 rose 19 times compared to 1402 due to underwriting its second Fund. In recent years, high attention has been paid to indirect investment via Leveraged Investment Funds as well as Sector Funds. The Sector Funds that focus on investing in shares of businesses in a particular industry, benefit from the investment opportunities in those industries. In addition, the value of the Transactions of Mortgage Right Securities rose by 35.2 percent in 1403. Table 35 exhibits value and number of traded symbols in modern financial instruments.

Table 35. Value of Transactions and Number of Traded Symbols in the Modern Financial Instruments (IRR trillion)

Type	1402		1403		Percentage Change in Value of Transactions	
	Value of Transactions (IRR trillion)	Number of Traded Symbols	Value of Transactions (IRR trillion)	Number of Traded Symbols		
Sukuk	Islamic Treasury Bill and Bond (AKHZA)	25,472.4	37	26,723.3	30	4.9
	Ijara	459.8	45	423.5	45	-7.9
	Murabaha	129,381.7	214	209,192.2	295	61.7
	Gharz-al-hasaneh	501.1	3	0.3	1	-99.9
	GAAM	140.7	18	1.9	6	-98.7
	Manfaat	138.9	6	0.0	0	-100.0
Investment Funds	Exchange-traded	7,340.3	80	12,259.4	101	67.0
	Fund of Funds	2.1	1	40.8	2	1,803.6
	Venture Capital	0.8	14	3.8	13	388.0
	Properties	18.6	3	227.0	4	1,119.4
	Sector	54.7	9	184.9	23	237.8
	Private	8.2	6	3.7	5	-54.8
Mortgage Right	75.5	39	102.1	10	35.2	
Total	163,595.0	475	249,214.1	538	52.3	

Source: Iran Fra Bourse

During 1403, more than IRR7,258.1 trillion has been financed through the OTC, up 92.9 percent from that in 1402, of which 67.1 percent was via underwriting (including Government Murabaha Debt Securities) and 19.9 percent via Islamic Treasury Bills and Bonds. During the same period, the OTC listed companies increased their capital by IRR886.5 trillion, excluding asset revaluation. In addition, IRR51.9 trillion was raised through IPO by newly-listed companies in OTC.

All in all, during 1403, the government and the listed

companies financed IRR11,569 trillion via TSE and OTC (including Debt Securities) indicating 47.8 percent rise from the year 1402. Given the IRR59,659 trillion corporate financing through the banking system, the share of the Iranian capital market in corporate financing (including Debt Securities) reaches 16.2 percent. Excluding IRR6,039 trillion of public financing through sales of Government Debt Securities in TSE and OTC, the 16.2 percent share of the Iranian capital market declines to 8.5 percent. Table 36 presents details of various methods of finance in OTC in 1402 and 1403.

Table 36. Various Types of Financing Through OTC

	1402		1403		Percentage Change in Value
	Value (IRR trillion)	Share in Total (percent)	Value (IRR trillion)	Share in Total (percent)	
Total	3,762.3	100.0	7,258.1	100.0	92.9
Initial Public Offering	99.5	2.6	51.9	0.7	-47.8
Islamic Treasury Bills and Bonds	734.5	19.5	1,147.6	19.9	97.1
Underwriting	2,442.8	65.0	4,872.1	67.1	99.4
Raising Capital (except for asset revaluation)	485.5	12.9	886.5	12.2	82.6

Source: Iran Fara Bourse

9. BUSINESS ENVIRONMENT

Basically, the business environment is referred to as a collection of internal and external factors that affect a firm's activities but is out of control of its managers. The resources and employees are categorized as the internal, while customers and markets as the external factors affecting such sorts of activities. Moreover, governments as the regulatory authorities for various businesses and activities play a dominant role in improvement or worsening of the business environment, success and failure of the private sector are tied to the government practices in that regard. Some international organizations survey the business environment by various countries. The result of the surveys that are issued annually shed light on the requirements for improvement in the business environment of the surveyed countries.

The Ease of Doing Business Report of the World Bank has been published annually from 2003 to 2020. The report had assessed the business environment of the countries by 10 major indices. The issuance of the report, however, was ceased from 2020 onwards due to the manipulation of the data of some countries. Consequently, the world bank decided to issue a new annual report regarding the business environment of countries. The first volume of the new report that is titled Business Ready was published in 2024. The report aims to survey the business environment

through 10 distinct indices and is planned to be published in 3 phases. Iran, however was not under survey in initial phase and is planned to be included in the Business Ready from 2026 onwards.

Moreover, the issuances of Global Competitiveness Report of the World Economic Forum (WEF) which ranks countries in four areas (enabling environment, human capital, markets, and innovation ecosystem), has also been stopped since 2020.

9-1. Economic Freedom and Corruption

The economic freedom of various economies is assessed by some international organizations and the Fraser Institute as well as the Heritage Foundation are as such. The Fraser Institute issues an index which is presented in its Economic Freedom of the World (EFW) report. The index is derived from five areas including "Size of Government", "Legal Structure and Property rights", "Sound Money", "Freedom to Trade Internationally" and "Regulation Policies in Credit Market, Labor Market, and Business". The most recent report of the Fraser institute was published in 2024, assessing 165 countries worldwide in 2022. According to the survey, in 2022, ascending by 2 places from 2021, Iran ranked as 158th with the total score of 4.63 (out of 10). Despite this promotion, Iran is still placed among the worst 10 countries regarding economic freedom, followed by Argentina, Myanmar, Algeria, Syria, Sudan, and Zimbabwe.

Just like its preceding years, Among the five distinct areas of the survey, the 64th place in the Size of Government with score of 6.99 was the highest position achieved by Iran and on the other hand, Iran's weakest performance was related to the Freedom to Trade Internationally with the score of 2.48 and the 165th place, albeit compared to 2021, the country has performed better in both aforementioned areas. Given that the Doing Business Index of the World Bank and Global Competitiveness of the World Economic Forum that were the major sources of the Fraser Institute were not published, in order to cover the lack of data, the data from the Economist Intelligence Unit has been used by Fraser Institute and the subgroups of the areas of the Economic Freedom are not investigated.

Heritage Foundation also investigates business environment

worldwide and issues the Index of Economic Freedom (IEF). The report of 2025 of Heritage Foundation surveys 184 countries worldwide from 1st of July 2023 to 30th of June 2024. The survey indicates that the global IEF score has risen to 59.7 (out of 100) to stand 1.1 above the 58.6 in 2024 survey. Notwithstanding this slight improvement in the global score, Heritage considers the global economy fragile due to the inappropriate policies implemented during COVID-19 pandemic, Russia invasion of Ukraine, and the tensions in the Middle East region. In the 2025 report of Heritage Foundation, only 3 countries (1 country down from 4 in the 2024 Index) recorded economic freedom scores of 80 or more, putting them in the ranks of the economically “free”. Note that as among the 184 surveyed countries, the necessary information of 8 (Iraq, Afghanistan, Libya, Lichtenstein, Somalia, Syria, Yemen and Ukraine) were not available completely, they have not been scored and the rankings are based on the remaining 176 countries in the survey.

The IEF is measured through 4 broad pillars that altogether cover 12 aspects as follows: “Rule of Law (including Property Rights, Judicial Effectiveness and Government Integrity)”, “Government size (including Tax Burden, Government Spending and Fiscal Health)”, “Regulatory

Efficiency (including Business Freedom, Labor Freedom and Monetary Freedom”, and “Market Openness (including Trade Freedom, Investment Freedom and Financial Freedom”. Among the 176 countries under survey in 2025 report, with 1.3 improvement, Iran scored 42.5 (out of 100), but stood at the same place of 169th just like in its 2 preceding years, followed by Burundi, Eritrea, Sudan, Zimbabwe, Venezuela, Cuba, and North Korea. Moreover, among the 14 countries of MENA, Iran occupied the worst place.

Heritage Foundation 2025 report suggests that among the 12 aspects of the survey, the worst scores of Iran regarding Economic Freedom belonged to Investment Freedom, Financial Freedom, and Government Integrity, respectively, while the best scores of the country were related to Government Spending, Fiscal Health and Tax Burden. Moreover, in the same report, Iran’s economic freedom has improved only in 4 aspects of Tax Burden, Fiscal Health, Business Freedom as well as Monetary Freedom compared to the report of 2024 and as for other aspects, it has either remained the same or has worsened. Table 37 presents Iran’s scores of IEF of the most recent Heritage Foundation reports.

Table 37. Iran’s Scores in the Index of Economic Freedom of Heritage Foundation (out of 100)

Aspect	Score				
	2021	2022	2023	2024	2025
Government Spending	90.1	92.5	94.8	95.3	94.0
Tax Burden	80.8	80.8	81.1	81.1	81.3
Fiscal Health	82.8	54.7	58.8	62.5	84.1
Labor Freedom	50.1	49.4	50.7	48.8	43.6
Judicial Effectiveness	28.3	29.4	26.3	18.8	18.6
Business Freedom	57.1	38.9	38.9	37.9	38.4
Trade Freedom	54.2	59.2	55.8	55.8	55.8
Government Integrity	31.8	19.8	19.6	17.1	16.3
Property Rights	33.5	26.6	25.0	23.8	23.3
Monetary Freedom	42.1	42.3	40.6	38.2	39.0
Investment Freedom	5	5	5	5	5
Financial Freedom	10	10	10	10	10

Source: Heritage Foundation, Index of Economic Freedom of 2021 to 2025

Regarding the Property Rights and Corruption Perception, the latest report on the International Property Right Index issued by the Property Right Alliance in 2024 indicated that among the 125 countries investigated in the report, Iran ranked as 113th, the same place as in 2023, with a small decline in its score. From a regional view point, Iran has stood at the 14th place among the 15 countries, showing one step decline compared to its preceding year.

Regarding the Corruption Perception Index (CPI) of the Transparency International, in 2024 and among 180 countries, Iran has ranked 151st, losing 2 places compared to its preceding year.

In addition to the aforementioned indices, the Legatum Prosperity Index could also provide a picture of Iran’s business environment. In its latest report issued in 2023, 167 countries were surveyed in 12 different areas of

Safety and Security, Personal Freedom, Governance, Social Capital, Investment Environment, Enterprise Conditions, Infrastructure and Market Access, Economic Quality, Living Conditions, Health, Education and finally Natural Environment. The latest Legatum Institute report suggests that in 2023, Iran occupied the 126th place among the 167 countries surveyed, indicating one place

decline compared to 2022. In the same year, Iran ranked as 15th among 19 MENA (Middle East and North Africa) countries. Going over various areas of the Legatum Prosperity Index by countries, in 2023 Iran was among the 10 worst countries in Personal Freedom, Enterprise Conditions as well as Natural Environment.

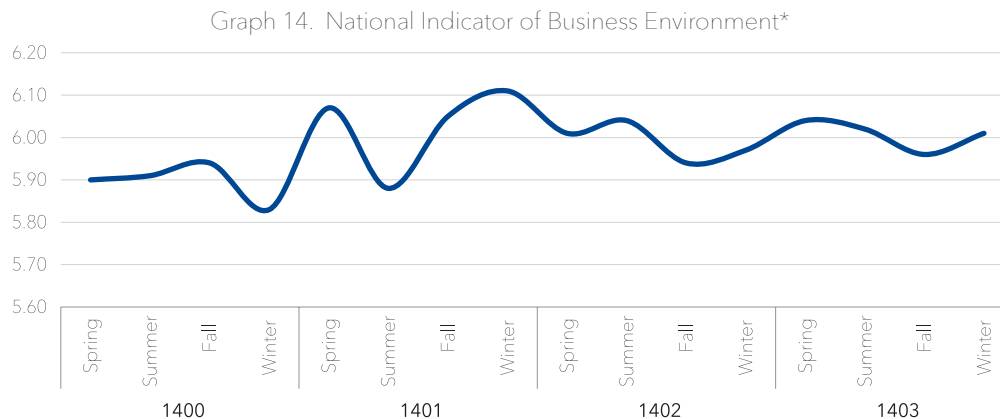
9-2. Monitoring Business Environment by Domestic Institutions

According to the Law of Sustained Improvement in Business Environment passed in the year 1390, the Chambers of Commerce are required to establish national indicators of business environment in Iran and also assess and publish them annually and quarterly by different provinces, sectors, and economic activities in order to enable the policymakers to monitor the conditions of business environment in the country. Although this task was previously carried out by Islamic Parliament Research Center till 1395, Iran Chamber of Commerce, Industries, Mines, and Agriculture (ICCIMA) identified and introduced national indicators for monitoring business environment in 1394 and started the national project of monitoring business environment in collaboration with Iran Chamber of Cooperative and Iran Chamber of Guilds.

In the latest report of the ICCIMA, issued in winter 1403, survey data were obtained via perception polls on the condition of business environment components in the country by 2,955 economic agents of the three Chambers (the ICCIMA, Chamber of Cooperative, and Chamber of Guilds) through completing online questionnaires and phone sampling, while statistical data were collected from

official statistical sources of the country.

The ICCIMA report of winter 1403 suggests that the national indicator of business environment in Iran has reached 6.01 in winter 1403, below the 6.04 in winter 1402, but above the 5.96 in fall 1403. In other words, in the last quarter of 1403, the business environment has improved compared to winter 1402 but has worsened compared to fall 1403. The national indicator business environment ranges from 0 to 10, with 10 pertaining to the worst state. According to the economic agents' data used in the survey, in winter 1403 "Instability and Unpredictability of Prices (for raw materials and products)", "Difficulty of Financing from Banking System" and "Instability of Policies, Regulations, and Procedures Concerning Doing Business" were the most unfavorable components of the business environment (same as preceding years), while "Customer Acceptance of Innovation in Products and Services", "Ease of access to water", and "General Tendency to Buy Imported Goods Instead of Domestic Products" were the most favorable components of the indicator. Graph 14 depicts the quarterly developments of national indicator of business environment from spring 1400 to winter 1403.



Source: Iran Chamber of Commerce, Industries, Mines, and Agriculture
 * Decrease in the index means improvement of the business environment.

In winter 1403, from the Iranian economic agents' point of view, the Industry sector enjoyed the most desirable business environment, while the worst business environment was attributed to the Services sector. In the same period, the business environment in the Industry sector and Services sector has slightly worsened compared to fall 1403, but that of the Agriculture sector has been the same in both quarters. In all three aforementioned sectors, the Instability and Unpredictability of Prices (for raw materials and products) has been the worst component of the indicator

for business environment. In winter 1403, Customer Acceptance of Innovation in Products and Services was the most favorable component of the business environment in the Agriculture and Industry sectors. Moreover, as for the Services sector the Ease of Access to Water was the most favorable component of the indicator. Table 38 presents the details of survey study of the Business Environment Indicator of ICCIMA in a descending order on the basis of winter 1403 scores.¹

Table 38. Business Environment Indicator of the 3 Chambers by Its Components Derived from Survey Study Results in 1403

Component	Spring	Summer	Fall	Winter
Instability and Unpredictability of Prices (for raw materials and products)	7.95	7.73	7.85	8.34
Difficulty of Financing from the Banking System	7.80	7.70	7.65	7.68
Instability of Policies, Regulations, and Procedures Concerning Doing Business	7.29	7.19	7.01	7.18
Unfair Auditing and Taxing Procedures	6.86	6.81	6.71	6.72
Unreasonable Intervention of Government in Pricing	6.48	6.38	6.33	6.49
Production and Supply of Non-standard and Counterfeit Goods	6.47	6.41	6.31	6.33
Monopoly, Privilege or Any Kind of Economic Rent to a Number of Competitors in the Market	6.41	6.25	6.19	6.29
Corruption in Administrative Organizations	6.33	6.24	6.15	6.26
Inefficient Administrative Processes and Difficulty of Obtaining Business Licenses	6.17	6.27	6.15	6.19
Unfair Competition of Public or Quasi-Public Corporations and Institutions in the Market	6.36	6.24	6.08	6.16
Strict Labor and Social Security Insurance Procedures for Human Resource Management	6.18	6.12	6.01	6.13
Limited Access to Energy Carriers (electricity, gas, diesel fuel, etc.)	4.52	5.81	5.74	6.13
Courts' Deficiency in Dealing with Complaints and Effective Prosecution of Violators of Rights of Others	6.30	6.10	5.94	6.12
Lack or Non-Transparency of Required Information for Doing Business	6.19	6.18	5.98	6.04
General Absenteeism	6.09	6.10	5.94	6.01
Different Interpretations of Laws and Regulations by Public Sector Employees	6.25	6.15	6.01	5.95
Lack of Skilled Labor Force	6.01	6.16	6.00	5.92
Supply of Smuggled Goods	5.92	5.86	5.84	5.91
Lack of New Technologies and Required Equipment	5.67	5.81	5.69	5.83
Insufficient Demand in the Market	5.34	5.49	5.43	5.46
Poor Transportation Infrastructures	5.58	5.60	5.54	5.45
Lack of Appropriate Coordination in the Supply Chain	5.30	5.32	5.19	5.20
Contracting Parties' Non-Compliance with Their Obligations and Promises	5.39	5.37	5.16	5.17
Limited Access to Mobile Network and Internet	5.21	5.31	5.18	4.89
Ineffective Distribution System	5.09	5.02	4.85	4.88
General Tendency to Buy Imported Goods Instead of Domestic Products	5.12	5.13	4.99	4.87
Limited Access to Water	3.94	4.26	4.08	3.92
Customer Acceptance of Innovation in Products and Services	4.12	4.13	3.79	3.86

Source: Iran Chamber of Commerce, Industries, Mines, and Agriculture, quarterly reports of monitoring business environment

1. Since the National Indicator of Business Environment is derived from the combination of the results of survey study and statistical study, its values are not included in Table 38.

The ICCIMA survey of winter 1403 suggests that Kohgiluyeh and Boyer-Ahmad, Hormozagan, and Mazandaran provinces experienced the most unfavorable, while Khuzestan, Razavi Khorasan, and Zanzan provinces enjoyed the most favorable business environment, respectively. The difference between the value of business environment indicators of the top one province and the bottom one province in winter 1403 registered 0.85 only. An examination of the business environment by various economic activities reveals that "Other Services", "Food and Accommodation", and "Transportation and Storage" experienced the most undesirable business environment, respectively, but "Education", "Insurance and Finance", and "Administration and Procurement" enjoyed the most desirable business environment during the period under review. The difference between the indicators of the

business environment in the top one and the bottom one economic activities registered 1.33. In terms of the firm size, the firms with more than 200 workers had the most desirable business environment with the score of 5.53, while those with 11 to 49 workers had the worst business environment with the score of 6.02. Regarding the age of the firms, those aged 6 to 10 years had the worst business environment, while in those aged less than 2 years, the business environment was the most favorable. Similarly, the difference between the indicators in the 2 aforementioned groups was negligible. The firms under the survey in the ICCIMA report have operated at 41.35 percent of their nominal capacity on average in winter 1403, down 0.75 percentage point from that in winter 1402.

10. KEY POINTS

- The Iranian economy expanded in 1403 but slower than its preceding year. The GDP growth rate was slowing down during 1403 and is anticipated to extend to 1404, resulting in a recession in that year, with the Oil sector as its main driver.
- Iran's production and exports of oil in 1403 were far below the pre-sanction era, despite the slight rise in oil production and exports of the country. The oil production of the country is reaching its technical ceiling, while the continuation of Iran's oil exports highly depends on the international and diplomatic interactions of the country.
- In the year 1403, the unemployment rate of the population aged 15 and above registered 7.6 percent, indicating 0.5 percentage point fall compared to its preceding year, albeit, not due to the improve in employment ratio but as a result of the 0.3 percentage point decline in economic participation rate in 1403. In the same year, out of the total unemployed population, 42.2 percent were highly-educated, showing 0.9 percentage point rise from the year 1402.
- Despite the completely-realized Tax Revenues in 1403, the considerable rise in the issuance of Government Debt Securities and substantial withdrawal from the NDF, the General Sources of the Government Budget could not cover the realized General Uses, resulting in IRR400 trillion overall balance deficit.
- The remarkable expansion of oil and non-oil exports in the first 9 months of 1403 improved the trade balance and consequently the surplus of the current account. However, continuation of capital flight, low capital inflow and fall in the unidentified sources did not let the Balance of Payments to improve.
- The Iranian free market for foreign exchanges was highly volatile in 1403 and the USD price in that market closed the year 1403 up 58.1 percent from its opening day price. The transparency in foreign exchange transactions partly improved as the Commercial Market for Foreign Exchanges was launched as a subsidiary of Iran Center for Exchange of Currency and Gold, where the prices moved closer to the free market rates.
- In the year 1403, the higher return of commodity markets including gold as well as foreign currencies due to political tensions coupled with high inflation rate made long-term deposits less appealing to the Iranian investors.
- Violating the decreed cap on the monthly growth rate of banks' assets, mainly in summer 1403 caused M2 expansion to speed up. Besides, the downward path of the annual and point-to-point CPI inflation rates reversed course in the late 1403 that might extend to 1404 due to formation of upward inflation expectations.
- A bundle of exogenous risks including political tensions and regional wars caused the returns of other investment types and even the inflation rate to leave the returns of TSE (14.3 percent) and OTC (negative 4.3 percent) behind.
- On the basis of the reports of some international institutions, in 1403 Iran was again classified in the group of the countries with the worst business environment, both globally and regionally.

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